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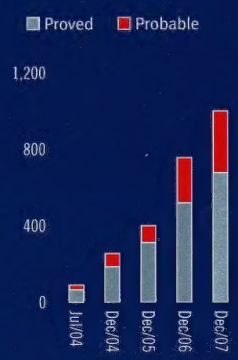
ProExEnergy

ProEx Energy Ltd.

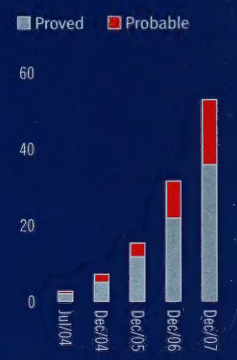
Financial and Operating Performance
2007 Report



ProEx's growth efforts are focused in the northeast British Columbia Foothills where it has built an exceptional land position, spanning approximately 140 kilometers in length.



Reserves Per Share
forecast price (per M shares)



Reserve Growth
(mmboe)

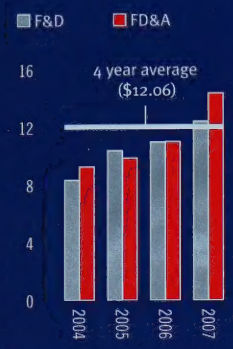
ProEx has developed a **diverse prospect inventory** on its lands which is equal to 3 years of drilling at current pace

President's Message

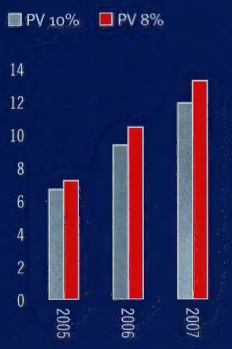
2007 was another year of significant accomplishments for ProEx; our undeveloped land position increased 63 percent to approximately 465,000 acres; fourth quarter 2007 production rose 59 percent from the fourth quarter of 2006; and, proved plus probable reserves grew 68 percent year over year. We continue to grow our underlying value on a per share basis with production per diluted share growing 25 percent in the fourth quarter of 2007 over the same period of 2006, proved plus probable reserves per one thousand diluted shares growing by 32 percent during 2007 and funds generated from operations per diluted share growing by 35 percent in 2007.

Of significance in 2007 was the introduction of stratigraphic diversity into our future drilling opportunity base. The traditional Halfway regional tight gas play continues to be the bulk of our inventory and has now been complimented by the shallower Cretaceous aged Bluesky and Gething gas sands as well as the deeper Mississippian aged Debolt, which has the potential to add substantially larger production and reserves per well. This evolution may assist ProEx in continuing its rapid growth profile for the next several years.

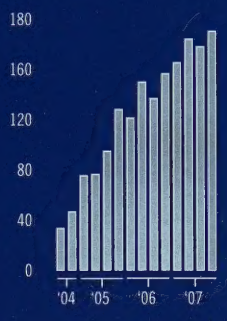
The Company has built nine separate natural gas compression facilities in the Foothills since July 2004. We have standardized the design and construction template to maximize efficiency and provide flexibility and ease of future expansion. Throughout this same timeframe ProEx has constructed 300 kilometers of gathering and sales lines to bring discovered natural gas to market. This infrastructure now provides many alternatives in the direction and allocation of our exploration and development capital. Although the capital invested to date has been significant, there continues to be many opportunities to expand the operating footprint over the coming years. As the expansion continues to the west and north significant topographical challenges will be faced. Each of these challenges represents opportunity to discover and bring to market resources which have not yet been accessed either due to technology or commodity pricing.



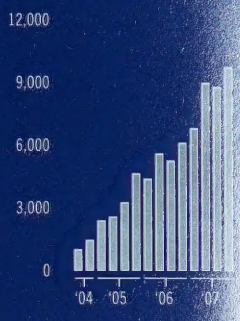
Finding, Development & Net Acquisition Costs
($ per boe)



Net Asset Value
forecast price
($ per diluted common share)



Production Growth per Share
(boe/d per MM shares)



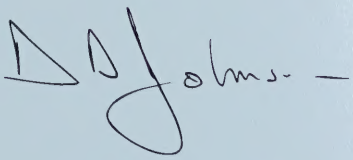
Quarterly Production Growth
(boe per day)

During 2007 we continued to aggressively build our Foothills land position through crown land sales, strategic acquisitions and area farm-ins leveraging off of our historical success and regional knowledge. The Company completed two acquisitions, the Caribou/Bubbles acquisition in April and the Blair acquisition in November. The Caribou/Bubbles acquisition provides us with many years of development opportunities in the Halfway with continuation of the trend north from our existing land position while also bringing the potential for several other natural gas targets. The Blair acquisition includes land contiguous with our existing lands and Cretaceous exploitation opportunities. Both of these acquisitions were accomplished by leveraging our Foothills knowledge, experience and track record during a period of weaker commodity prices.

The capital efficiency of the ongoing exploration and development program continued to be very strong in 2007. Finding and development costs inclusive of revisions and future development costs were $12.33 per proved plus probable boe for the year, generating a recycle ratio of 2.14 times. All-in finding, development and acquisition costs on a total investment of $302.7 million for 2007 were $14.29 per proven plus probable boe. Since inception in July 2004 all-in cumulative finding, development and acquisition costs are $12.06 per proved plus probable boe.

We have planned capital investment of $150 million in 2008 for exploration and development activities which is expected to generate production growth of 40 to 50 percent over average 2007 volumes. The Company expects to drill approximately 50 net wells during 2008 and invest approximately $25 million in land and seismic, $25 million in facility construction and $100 million in drilling and completions activities. ProEx is well positioned to internally fund its 2008 program from cash flow and available bank lines of which $75 million of unutilized credit capacity was available at December 31, 2007.

Going forward ProEx expects to continue doing the same as it has done during the past four years, focus in the area we know best and continue to grow our asset base and undeveloped land at an aggressive pace. We continue to believe in long term natural gas fundamentals and will continue to pursue repeatable natural gas exploration targets where we have expertise and an advantage.



David D. Johnson

President and Chief Executive Officer
February 26, 2008



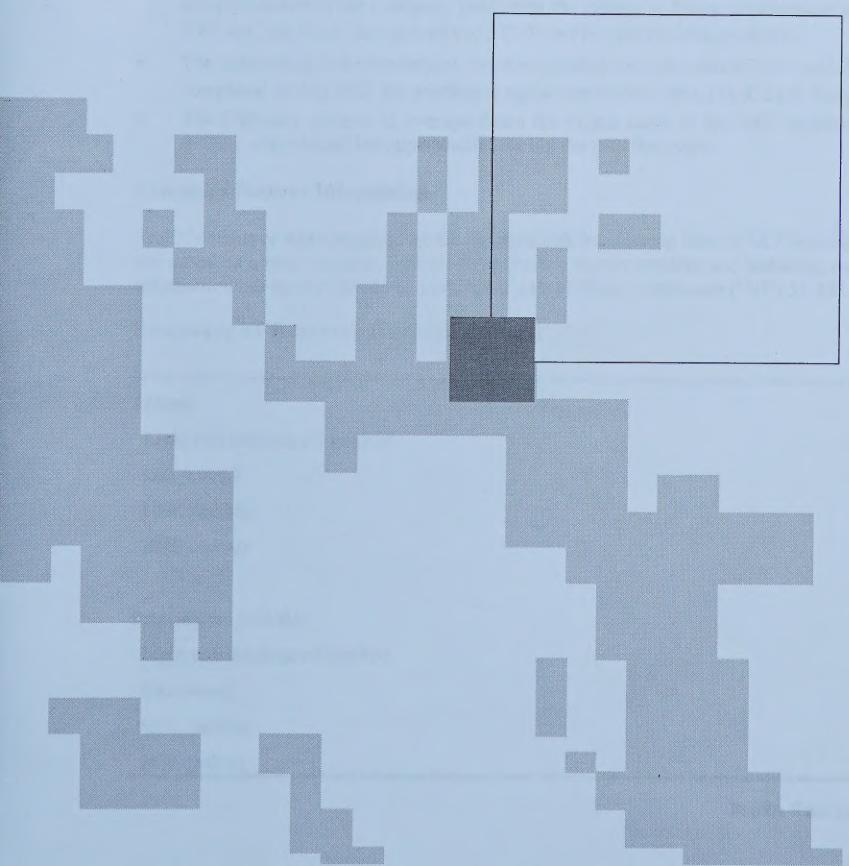
During 2007 ProEx increased reserves by **68%** and replaced production by **787%**

Corporate Profile

ProEx's growth efforts are entirely focused in the northeast British Columbia Foothills where it has built an exceptional land position, spanning approximately 140 kilometers in length. The Company has high working interests, extensive owned infrastructure and operatorship in a regional tight Halfway gas play. This repeatable play concept has been developed over the past several years utilizing leading technical competencies and has now been complimented by other stratigraphic horizon opportunities. The operating area features year-round access with close proximity to the Alaska Highway. ProEx controls local facility and road infrastructure and has secured gathering and processing capacity to handle future growth. Since its inception in July 2004, the Company has generated strong production and reserve growth while on-stream costs and finding and development costs continue to be among the most efficient in the industry.



ProExEnergy



Reserves Summary, Capital Efficiencies and Financial Information

ProEx Energy Ltd.
2007

RESERVES & CAPITAL EFFICIENCIES

Highlights

Reserves

- Total proved plus probable reserves at December 31, 2007 increased 68 percent to 52.6 million boe compared to 31.5 million boe in 2006.
- Total proved reserves at December 31, 2007 increased 65 percent to 35.7 million boe compared from 21.7 million boe in 2006.
- Proved plus probable reserves per thousand basic shares increased 26 percent over the prior year while proved plus probable reserves per one thousand diluted shares increased 32 percent during the same period.
- Reserve growth in 2007 was achieved through the exploration and development program as well as two strategic acquisitions during the year.
- The 2007 activity replaced 787 percent of production on a proved plus probable basis and 553 percent on a proved basis.
- Since July 2004, when the Company commenced operations, ProEx has booked approximately 340 bcf equivalent of proved plus probable reserves primarily in the Foothills project area.
- ProEx's net asset value per share at December 31, 2007 was $12.88 per basic share ($10.60 per basic share in 2006) and on a diluted basis $11.94 per share ($9.38 per diluted share in 2006) using GLJ Petroleum Consultants Ltd. ("GLJ") forecasted prices discounted at 10 percent, and $14.35 per basic share and $13.25 per diluted share ($11.90 and $10.49 respectively per share in 2006) using GLJ forecasted prices discounted at eight percent. The GLJ Report has been prepared in accordance with the standards contained in the COGE Handbook and the reserve definitions contained in NI 51-101.

Capital Efficiency

- Finding and development costs ("F&D), which represents the efficiency of the Company's ongoing exploration and development program, related to the total 2007 capital program (including technical revisions and the change in future development capital) were $16.60 per boe proved and $12.33 per boe proved plus probable. This translates into a recycle ratio of 2.14 times on a proved plus probable basis.
- Finding, development and net acquisition costs ("FD&A") related to the total 2007 capital program which includes the asset acquisitions (including the change in future development capital) were $19.70 per boe proved and $14.29 per boe proved plus probable. This translates into a recycle ratio of 1.34 times on a proved basis and 1.85 times on a proved plus probable basis.
- The cumulative F&D costs since inception of the Company (including the change in future development capital) for the period July 1, 2004 to December 31, 2007 are $14.69 per boe proved and $11.00 per boe proved plus probable. The cumulative FD&A costs since inception of the Company (including the change in future development capital) for the period July 1, 2004 to December 31, 2007 are $16.31 per boe proved and $12.06 per boe proved plus probable.
- The exploration and development program production replacement costs were $29,153 per boe per day. Including the acquisitions completed during 2007 the production replacement costs were $41,872 per boe per day.
- The Company expects to average down the higher costs of the 2007 acquisitions to levels closer to historic levels through the drilling of the identified opportunities during the next few years.

Summary Reserve Information

ProEx's reserves were prepared by the independent engineering firm of GLJ Petroleum Consultants ("GLJ"). Reserves included herein are stated on a total company interest basis (before royalty burdens and including royalty interests) unless noted otherwise. All reserves information has been prepared in accordance with National Instrument ("NI") 51-101.

Summary of Reserves (forecast prices)

	2007	2006
Proved		
Light and medium oil *(mbbls)*	578	508
Gas *(mmcf)*	198,279	119,969
NGL *(mbbls)*	2,109	1,165
BOE *(mboe)*	35,733	21,668
Proved plus probable		
Light and medium oil *(mbbls)*	787	759
Gas *(mmcf)*	294,194	173,737
NGL *(mbbls)*	3,037	1,798
BOE *(mboe)*	52,856	31,513

The Company's actual natural gas and petroleum reserves and future production will be greater than or less than the estimates provided. The estimated future net revenue from the production of the Company's natural gas and petroleum reserves does not represent the fair market value of the Company's reserves. In addition to the summary reserve information disclosed in this annual report, more detailed reserve disclosure in accordance with NI 51-101 is included in the Company's Annual Information Form ("AIF"). A copy of the Company's AIF can be obtained by contacting the Company or visiting its website www.proexenergy.com or through SEDAR at www.sedar.com.

2007 Summary of Oil and Gas Reserves

Forecast Prices and Costs, Total Company Interest

	Light and Medium Crude Oil (mbbls)	Natural Gas Liquids (mbbls)	Natural Gas (bcf)	Total 2007 (mboe)	Total 2006 (mboe)
Proved					
Developed producing	437	1,521	129,061	23,468	15,767
Developed non-producing	132	216	22,649	4,122	1,808
Undeveloped	9	372	46,570	8,142	4,093
Total proved	578	2,109	198,279	35,733	21,668
Probable	210	928	95,914	17,123	9,845
Total proved plus probable	787	3,037	294,194	52,856	31,513

Note: May not add due to rounding

Net Present Value of Reserves, Forecasted Prices and Costs (before tax)

($ thousands)	Undiscounted	Discounted at 5%	Discounted at 8%	Discounted at 10%
Proved				
Developed producing	624,321	455,312	394,315	363,029
Developed non-producing	104,676	74,815	63,686	57,897
Undeveloped	163,844	109,310	88,903	78,335
Total proved	892,842	639,437	546,904	499,261
Probable	530,849	270,203	201,063	170,353
Total proved plus probable	1,423,692	909,640	747,968	669,614

Note: May not add due to rounding

Reconciliation of Total Company Interest Reserves by Principal Product Type

Forecast Prices and Costs

		Light and Medium Crude	Natural Gas	Natural Gas Liquids	BOE
		(mbbl)	(bcf)	(mbbl)	(mboe)
Total Proved	Opening balance	507.7	120.0	1,165.6	21,668.1
	Exploration discoveries	-	-	-	-
	Drilling extensions, infill drilling and improved recovery	66.5	76.0	1,085.5	13,820.6
	Technical revisions	85.7	(14.5)	(300.6)	(2,633.2)
	Economic factors	-	-	-	-
	Acquisitions	84.8	33.9	247.9	5,983.5
	Dispositions	-	-	-	-
	Production	(166.9)	(17.1)	(89.5)	(3,105.7)
	Closing balance	577.8	198.3	2,108.9	35,733.2

		Light and Medium Crude	Natural Gas	Natural Gas Liquids	BOE
		(mbbl)	(bcf)	(mbbl)	(mboe)
Proved Plus Probable	Opening balance	758.7	173.7	1,797.9	31,512.7
	Exploration discoveries	-	-	-	-
	Drilling extensions, infill drilling and improved recovery	-	116.6	1,123.6	20,561.9
	Technical revisions	92.5	(27.2)	(156.3)	(4,598.0)
	Economic factors	-		-	-
	Acquisitions	103.0	48.1	360.9	8,485.3
	Dispositions	-	-	-	-
	Production	(166.9)	(17.1)	(89.5)	(3,105.7)
	Closing balance	787.3	294.2	3,036.6	52,856.2

Reserve Additions and Revisions

Reserve additions were booked generally in line with Company activity in the operating areas during 2007. Exploration and development drilling resulted in the largest property gains at Buckinghorse and Julienne followed by acquisition adds at Bubbles and Buckinghorse. Material drilling additions at Sasquatch, Bubbles, and Bernadet were also recognized at year end.

Downward revisions to prior year bookings were made this year to West Beg where Halfway natural gas production trends, which were believed to be stabilizing, continued to decline to the regional average decline curve. The West Beg wells had been expected to stabilize at higher levels due to the higher initial production rates, however ultimate recoveries will still be above average due to the early flush period of approximately two years. Other revisions were experienced due to the cancellation of a portion of the undeveloped future drilling locations due to the drilling results at Dogrib and the matching of hydrocarbon liquid ratios to 2007 performance on producing and future wells across the Foothills assets.

Additions, net of revisions, totaled 24.4 million boe for 2007 on a proven plus probable basis. The year end closing balance of 52.9 million boe is distributed approximately 60 percent Halfway, 30 percent Cretaceous aged Bluesky/Gething and 10 percent Mississippian aged Debolt.

Summary of Pricing and Inflation Rate Assumptions
As of December 31, 2007

Forecast Prices and Costs

This summary table identifies benchmark reference pricing that apply to the Company. The oil, natural gas, NGL reference prices, inflation rates and exchange rates used in the forecasted price evaluation were prepared by GLJ, the Company's independent qualified reserves evaluator, and are as follows:

	Oil		Natural Gas	
Year	WTI Cushing Oklahoma *(US$/bbl)*	Edmonton Par Price 40° API *(Cdn$/bbl)*	AECO Gas Price *(SCdn/MMBtu)*	Sumas Spot gas Price *($US/MMBtu)*
Historical				
2003	31.07	43.66	6.66	4.66
2004	41.38	52.96	6.88	5.26
2005	56.58	69.02	8.58	7.13
2006	66.22	73.21	7.16	6.27
2007	72.24	77.02	6.65	6.52
Forecast				
2008	92.00	91.10	6.75	6.90
2009	88.00	87.10	7.55	7.70
2010	84.00	83.10	7.60	7.70
2011	82.00	81.10	7.60	7.70
2012	82.00	81.10	7.60	7.70
2013	82.00	81.10	7.60	7.70
2014	82.00	81.10	7.80	7.90
2015	82.00	81.10	7.97	8.07
2016	82.02	81.12	8.14	8.24
2017	83.66	82.76	8.31	8.41
2018	85.33	84.42	8.48	8.58
Thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr

Finding & Development Costs

Advisory

The aggregate of the exploration and development costs incurred in the most recent financial year and the change during the year in estimated future development capital generally will not reflect total finding and development costs related to reserve additions for that year.

During 2007, the exploration and development program resulted in total reserve additions (after revisions) of 11.2 million boe on a proved basis, and 16.0 million boe on a proved plus probable basis. After incorporating the change in future development capital, the exploration and development program generated finding and development costs of $16.60 per boe proved and $12.33 per boe proved plus probable. During 2007, the Company made two strategic acquisitions which resulted in reserve additions of 6.0 million boe on a proved basis, and 8.5 million boe on a proved plus probable basis and addition cost of $25.49 per boe on a proved basis, and $17.97 per boe on a proved plus probable basis. Over the next few years, the Company expects to average the acquisition costs down to historic levels through drilling initiatives on the acquired lands. The net acquisition activity resulted in the total exploration and development program finding, development and acquisition costs ("FD&A") of $19.70 per boe proved and $14.29 per boe proved plus probable. The cumulative FD&A costs since inception of the Company (including the change in future development capital) for the period July 1, 2004 to December 31, 2007 are $16.31 per boe proved and $12.06 per boe proved plus probable.

2007 Finding & Development Costs and Finding, Development & Net Acquisition Costs	Capital Expenditures	Proved Reserve Additions	Proved Costs	Proved Plus Probable Reserve Additions	Proved Plus Probable Costs
	($ thousands)	*(mboe)*	*($/boe)*	*(mboe)*	*($/boe)*
F&D exploration and development program before revisions	150,167	13,821	10.87	20,562	7.30
F&D exploration and development program after revisions (a)	150,167	11,187	13.42	15,964	9.41
Change in proved future development capital (b)[1]	35,577	n/a	n/a	n/a	n/a
Change in proved plus probable future development capital (c)[1]	46,694	n/a	n/a	n/a	n/a
Proved F&D including change in future development capital (d) = (a+b)	185,744	11,187	16.60	n/a	n/a
Proved plus probable F&D including change in future development capital (e) = (a+c)	196,861	n/a	n/a	15,964	12.33
Net acquisition/disposition activity (f)	152,523	5,984	25.49	8,485	17.97
Total 2007 proved FD&A costs including future development capital (d+f)	338,267	17,171	19.70	n/a	n/a
Total 2007 proved plus probable FD&A costs including future development capital (e+f)	349,384	n/a	n/a	24,449	14.29

2006 Finding & Development Costs and Finding, Development & Net Acquisition Costs	Capital Expenditures	Proved Reserve Additions	Proved Costs	Proved Plus Probable Reserve Additions	Proved Plus Probable Costs
	($ thousands)	*(mboe)*	*($/boe)*	*(mboe)*	*($/boe)*
F&D exploration and development program before revisions	151,468	12,434	12.18	19,348	7.83
F&D exploration and development program after revisions (a)	151,468	11,823	12.81	18,403	8.23
Change in proved future development capital (b)[1]	33,418	n/a	n/a	n/a	n/a
Change in proved plus probable future development capital (c)[1]	49,167	n/a	n/a	n/a	n/a
Proved F&D including change in future development capital (d) = (a+b)	184,886	11,823	15.64	n/a	n/a
Proved plus probable F&D including change in future development capital (e) = (a+c)	200,635	n/a	n/a	18,403	10.90
Net acquisition/disposition activity (f)	684	-	n/c[2]	12	57.00
Total 2006 proved FD&A costs including future development capital (d+f)	185,570	11,823	15.70	n/a	n/a
Total 2006 proved plus probable FD&A costs including future development capital (e+f)	201,319	n/a	n/a	18,414	10.93

[2] *The acquisition activity during the year consisted of undeveloped land with no associated reserves.*

2005 to 2007 Finding & Development Costs and Finding, Development & Net Acquisition Costs	Capital Expenditures	Proved Reserve Additions	Proved Costs	Proved Plus Probable Reserve Additions	Proved Plus Probable Costs
	($ thousands)	*(mboe)*	*($/boe)*	*(mboe)*	*($/boe)*
F&D exploration and development program before revisions	395,749	34,138	11.59	49,755	7.95
F&D exploration and development program after revisions (a)	395,749	31,130	12.71	44,110	8.97
Change in proved future development capital (b)[1]	77,184	n/a	n/a	n/a	n/a
Change in proved plus probable future development capital (c)[1]	102,414	n/a	n/a	n/a	n/a
Proved F&D including change in future development capital (d) = (a+b)	472,933	31,130	15.19	n/a	n/a
Proved plus probable F&D including change in future development capital (e) = (a+c)	498,163	n/a	n/a	44,110	11.29
Net acquisition/disposition activity (f)	144,547	5,686	25.42	8,092	17.86
Total 2005 to 2007 proved FD&A costs including future development capital (d+f)	617,480	36,816	16.77	n/a	n/a
Total 2005 to 2007 proved plus probable FD&A costs including future development capital (e+f)	642,710	n/a	n/a	52,201	12.31

2004 to 2007 Finding & Development Costs and Finding, Development & Net Acquisition Costs	Capital Expenditures	Proved Reserve Additions	Proved Costs	Proved Plus Probable Reserve Additions	Proved Plus Probable Costs
	($ thousands)	*(mboe)*	*($/boe)*	*(mboe)*	*($/boe)*
F&D exploration and development program before revisions	427,609	37,690	11.35	54,563	7.84
F&D exploration and development program after revisions (a)	427,609	34,630	12.35	48,764	8.77
Change in proved future development capital (b)[1]	80,948	n/a	n/a	n/a	n/a
Change in proved plus probable future development capital (c)[1]	108,792	n/a	n/a	n/a	n/a
Proved F&D including change in future development capital (d) = (a+b)	508,557	34,630	14.69	n/a	n/a
Proved plus probable F&D including change in future development capital (e) = (a+c)	536,401	n/a	n/a	48,764	11.00
Net acquisition/disposition activity (f)	149,053	5,686	26.21	8,092	18.42
Total 2004 to 2007proved FD&A costs including future development capital (d+f)	657,610	40,316	16.31	n/a	n/a
Total 2004 to 2007 proved plus probable FD&A costs including future development capital (e+f)	685,454	n/a	n/a	56,855	12.06

Reserve additions in the Finding & Development Costs and the Finding, Development and Acquisition costs are on a total company interest basis (before royalty burdens and including royalty interests) as has been our practice in the past. The difference between total company interest and working interest is not material.

[1] *Reconciliation of Changes in Future Development Capital*

($ thousands)	*Proved*	*Change*	*Proved Plus Probable*	*Change*
January 1, 2005	*4,882*		*8,107*	
		8,189		*6,553*
January 1, 2006	*13,071*		*14,660*	
		33,418		*49,167*
January 1, 2007	*46,489*		*63,827*	
		35,577		*46,694*
January 1, 2008	*82,066*		*110,521*	

Production Replacement

The Company's capital investment program during the year replaced production by a factor of 5.5 times on a proved basis and 7.9 times on a proved plus probable basis.

	2007	2006
Production *(mboe)*	**3,106**	1,929
Proved reserve additions after revisions of prior periods and net acquisitions *(mboe)*	**17,171**	11,823
Proved replacement ratio	**5.5**	6.1
Proved plus probable reserve additions after revision of prior periods and net acquisitions *(mboe)*	**24,449**	18,414
Proved plus probable replacement ratio	**7.9**	9.5

Cost of Production Additions

During 2007, the Company added 7,229 boe per day of new production from its capital program and asset acquisitions. Exploration and development program capital was $150.2 million and asset acquisitions totaled $152.5 million resulting in total capital investment during 2007 of $302.7 million. The exploration and development program added production at a cost of $29,153 per boe per day and the total program being added at a cost of $41,872 per boe per day. This calculation is highly sensitive to the timing of production additions in the fourth quarter, which was later than originally forecasted in 2007.

(boe/d)	**Production**
Production Reconciliation	
Production fourth quarter 2006	6,080
Decline on base production	(1,763)
Exploration program production additions during 2007	5,151
Decline on new 2007 production	(1,803)
Production additions from 2007 acquisitions	2,078
Decline on 2007 acquisitions	(63)
Production fourth quarter 2007	9,680

Recycle Ratio

The recycle ratio is a measure for evaluating the effectiveness of a company's re-investment program. The ratio measures the efficiency of capital investment. It accomplishes this by comparing the operating netback per boe to that year's reserve FD&A costs.

	2007	2006
Operating netbacks *($/boe)*	**26.43**	24.35
Proved FD&A costs after revisions of prior periods and including the change in future development capital *($/boe)*	**19.70**	15.70
Proved reinvestment efficiency ratio	**1.34**	1.55
Proved plus probable FD&A costs after revisions of prior periods and including the change in future development capital *($/boe)*	**14.29**	10.93
Proved plus probable reinvestment efficiency ratio	**1.85**	2.23

Reserve Life Index

The Company's reserve life index ("RLI") using annualized fourth quarter production is 10.1 years proved (2006 – 9.8 years) and 15.0 years proved plus probable (2006 – 14.2 years).

	2007 Using Annualized Q4 Production	**2007 Using 2008 GLJ Forecast Production**	2006 Using Annualized Q4 Production	2006 Using 2007 GLJ Forecast Production
Production *(mmboe)*	3.533	4.314	2.219	2.678
Proved reserves *(mmboe)*	35.733	35.733	21.668	21.668
Proved RLI *(years)*	10.1	8.3	9.8	8.1
Production *(mmboe)*	3.533	4.718	2.219	3.009
Proved plus probable reserves *(mmboe)*	52.856	52.856	31.513	31.513
Proved plus probable RLI *(years)*	15.0	11.2	14.2	10.5

Reserves Per Share

	2007	2006
Proved plus probable reserves *(mboe)*	**52,856**	31,513
Proved plus probable reserves per thousand shares *(boe)*		
- Basic [1]	**1,006**	794
- Diluted [2]	**892**	676
Average Production (boe/d)	**8,509**	5,285
Average Production per million shares *(boe/d)*		
- Basic [3]	**179.8**	149.6
- Diluted [4]	**161.5**	126.6
Fourth quarter production (boe/d)	**9,680**	6,080
Fourth quarter production per million shares *(boe)*		
- Basic [1]	**184.3**	153.2
- Diluted [2]	**163.4**	130.4

[1] *Calculated using outstanding common shares at the end of the year.*
[2] *Calculated using outstanding common shares, options and warrants at the end of the year.*
[3] *Calculated using the weighted average outstanding common shares at the end of the year.*
[4] *Calculated using the weighted average outstanding common shares, options and warrants at the end of the year.*

Average production per million basic shares increased 20 percent during the year while average production per one million diluted shares increased 28 percent during the same period. Proved plus probable reserves per thousand basic shares increased 27 percent over the prior year while proved plus probable reserves per one thousand diluted shares increased 32 percent during the same period.

Net Asset Value Per Share Before Tax

ProEx's net asset value per share at December 31, 2007 was $12.88 per basic share ($10.60 per basic share in 2006) and on a diluted basis $11.94 per share ($9.38 per diluted share in 2006) using GLJ Petroleum Consultants Ltd. ("GLJ") forecasted prices discounted at 10 percent, and $14.35 per basic share and $13.25 per diluted share ($11.90 and $10.49 respectively per share in 2006) using GLJ forecasted prices discounted at eight percent. The GLJ Report has been prepared in accordance with the standards contained in the COGE Handbook and the reserve definitions contained in NI 51-101.

	2007		2006	
($ thousands)	**PV 8%**	**PV 10%**	PV 8%	PV 10%
Proved plus probable reserve value [2]	**747,968**	**669,614**	420,517	369,355
Undeveloped acreage [3]	**91,000**	**91,000**	63,000	63,000
Seismic[4]	**30,000**	**30,000**	17,000	17,000
Bank debt	**(96,881)**	**(96,881)**	(25,803)	(25,803)
Working capital deficiency	**(14,354)**	**(14,354)**	(2,035)	(2,035)
Asset retirement obligations[5]	**(3,893)**	**(3,070)**	(478)	(925)
Net asset value - Basic	**753,840**	**676,309**	472,201	420,592
Exercise of stock options and warrants	**31,044**	**31,044**	16,813	16,813
Net asset value - Diluted	**784,884**	**707,353**	489,014	437,405
Common shares outstanding				
-Basic	**52,528**	**52,528**	39,691	39,691
-Diluted	**59,227**	**59,227**	46,613	46,613
Net asset value per common share ($)				
-Basic	**14.35**	**12.88**	11.90	10.60
-Diluted[6]	**13.25**	**11.94**	10.49	9.38

[1] *The Company's net asset value before tax is measured with reference to the present value of future estimated net cash flows from reserves estimated by GLJ, the independent reserve engineers, and including land, seismic data, adjustments for working capital deficiency, asset retirement obligations and bank debt at year end. This calculation can vary significantly depending on the natural gas and oil price assumptions used by GLJ. This calculation does not represent a "going-concern" value since it only assumes the reserves contained in the GLJ report.*

[2] *Reserve values are based on before tax estimates of future cash flows as evaluated by our independent qualified reserve evaluators, GLJ using their future commodity price forecast as presented in the pricing assumptions (see 2007 Annual Information Form).*

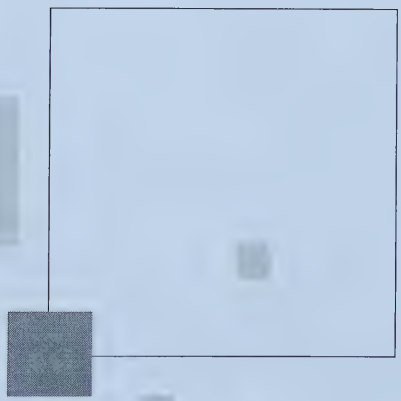
[3] *Undeveloped land values are based on internal estimates of market value considering recent sales of similar properties in the same general area.*

[4] *Seismic inventory values are an internal estimate of replacement value.*

[5] *Proved plus probable reserve value includes $1.8 million (2006 - $1.3 million) at PV eight percent, and $1.6 million (2006 - $0.9 million) at PV ten percent forecast pricing, of asset retirement obligations on wells with assigned reserves.*

[6] *Calculated using outstanding common shares, options and warrants at year-end.*

ProExEnergy



Management's Discussion and Analysis

ProEx Energy Ltd.
2007

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

ProEx Energy Ltd.

The following discussion and analysis as provided by the Management of ProEx Energy Ltd. ("ProEx" or "Company") as of February 26, 2008, is to be read in conjunction with the accompanying audited financial statements and related notes for the years ended December 31, 2007 and 2006. The financial data presented has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting and the measurement currency is the Canadian dollar.

Description of Company – ProEx Energy Ltd. is a Calgary based, natural gas focused, exploration and development company, established on July 2, 2004. Primary operating areas include the northeast British Columbia Foothills and Fort St. John Plains regions. Common shares of ProEx trade on the Toronto Stock Exchange ("TSX") under the symbol PXE.

Non-GAAP Measures – The MD&A contains the term "funds generated from operations" and "funds generated from operations per share" which do not have any standardized meaning prescribed by Canadian GAAP. Management uses funds generated from operations and funds generated from operations per share to analyze operating performance and leverage and considers funds generated from operations to be a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investments and to repay debt. Funds generated from operations should not be considered an alternative to, or more meaningful than cash flow from operating activities as determined in accordance with Canadian GAAP as an indicator of the Company's performance. Therefore references to funds generated from operations or funds generated from operations per share (basic and diluted) may not be comparable with the calculation of similar measures for other entities. Funds generated from operations per share is calculated using the basic and diluted weighted average number of shares for the period. The reconciliation between funds generated from operations and cash flow from operations after changes in working capital for the years ended December 31, 2007 and 2006 is as follows:

($ thousands)	**2007**	2006
Funds generated from operations	**73,808**	43,531
Changes in non-cash working capital	**1,592**	(6,134)
Cash flow from operations after changes in working capital	**75,400**	37,397

Management uses certain industry benchmarks such as operating netback to analyze financial and operating performance. This benchmark as presented does not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures for other entities. Management considers netbacks an important measure as it demonstrates its profitability relative to current commodity prices. The Company uses these measures to help evaluate its performance.

Boe Presentation – Barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet ("mcf") to one barrel ("bbl") is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All boe conversions in this report are derived by converting natural gas to oil in the ratio of six mcf of gas to one barrel of oil.

Forward-Looking Information – Certain information regarding the Company set forth in this document, including Management's assessment of the Company's future plans and operations, may constitute forward-looking statements under applicable securities law and necessarily involve risks associated with oil and gas exploration, production, marketing, and transportation such as loss of market, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers and ability to access sufficient capital from internal and external sources; as a consequence, actual results may differ materially from those anticipated in the forward-looking statements.

Relationship with Progress Energy Trust

The Company receives personnel and certain administrative and technical services from Progress Energy Trust ("Progress") in connection with the management, development, exploitation and operation of the assets of ProEx and the marketing of its production. Progress provides these services in accordance with the Technical Services Agreement entered into with ProEx as described below. ProEx has granted performance shares and stock options to Progress executives and employees and common shares under Progress' long term incentive compensation plan ("LTI") to non-executive employees of Progress in their capacity as service providers.

Under the terms of the LTI, non-executive Progress employees in their capacity as service providers, may be granted LTI awards to be paid in common shares of the Company. ProEx agreed to contribute to the LTI to ensure that service providers retain incentives related to the success of ProEx. Awards granted under the LTI will vest on the second anniversary date of the date of grant. ProEx has agreed to reimburse Progress for this expense.

ProEx and Progress have joint interest in certain properties and undeveloped land in the northeast British Columbia Foothills and Fort St. John Plains regions. These joint interest properties are governed by standard industry agreements and in addition the Company has entered into a protocol arrangement ("Protocol Arrangement") with Progress that specifies how each company will manage the joint lands in specifically identified areas of interest. To ensure good governance practices, both ProEx and Progress have each created independent committees of their Board of Directors to monitor compliance with the Technical Services Agreement and the Protocol Arrangement.

Technical Services Agreement – The Technical Services Agreement has no set termination date and will continue until terminated by either party with one year prior written notice to the other party or some other date as mutually agreed. The Company receives services including management, development, exploitation, operations, administrative, and marketing, as well as information technology systems from Progress on an expense reimbursement basis, based on the Company's monthly capital activity and production levels relative to the combined capital activity and production levels of both ProEx and Progress.

Protocol Arrangement – The Protocol Arrangement identifies methods and processes to be followed on both existing and new lands, joint facilities, marketing, seismic and surface rights. The Protocol Arrangement also outlines the practices to be followed in the event either party enters into areas outside of the identified areas of interest.

Independent Committee of the Board of Directors

Both ProEx and Progress have created independent committees of the Board of Directors to deal with technical services issues. The Committees' mandate includes the following:

- To consider any issues related to the Technical Services Agreement between Progress and ProEx that they consider appropriate or that are directed to the Committee by Management.
- To meet with the Technical Services Committee or similar committee of Progress when appropriate.
- To advise the Board of Directors of decisions by the Technical Services Committee of interpretations, amendments or issues in dispute.

On April 2, 2007, ProEx acquired certain interests in northeast British Columbia Foothills assets previously acquired by Progress. ProEx's total consideration, including transaction costs of $0.9 million was $136.4 million. When considering the bid process for this acquisition, each of Progress and ProEx identified assets that they were interested in acquiring and values that they were willing to pay to acquire such assets. Progress made a single bid on behalf of ProEx and Progress and the ultimate purchase price was based on the prices that each of Progress and ProEx were willing to pay for the assets that they had selected to acquire. The resale of assets from Progress to ProEx was based on these allocations. The technical service committee reviewed the details of the transaction prior to the purchase and sale agreement being signed. All lands are managed in accordance with the Protocol Arrangement.

On November 30, 2007, ProEx and Progress jointly acquired certain assets in the Foothills region of British Columbia. The total cost of the acquisition of $17.9 million was split in accordance with working interests currently held in the surrounding area. As a result, ProEx acquired an 80 percent interest ($14.3 million) and Progress acquired a 20 percent interest in the assets ($3.6 million).

2007 HIGHLIGHTS AND SELECTED FINANCIAL INFORMATION

($ thousands, except per share amounts)	**2007**	2006
Production		
- Natural gas (mcf/d)	**46,838**	28,836
- Crude oil (bbls/d)	**457**	335
- Natural gas liquids (bbls/d)	**245**	144
- Total production (boe/d)	**8,509**	5,285
Pricing		
- Natural gas ($/mcf)	**6.64**	6.84
- Crude oil ($/bbl)	**74.80**	69.26
- Natural gas liquids ($/bbl)	**68.49**	67.03
Petroleum and natural gas revenue	**132,160**	84,000
Funds generated from operations	**73,808**	43,531
- Basic per share	**1.56**	1.23
- Diluted per share	**1.40**	1.04
Net earnings	**20,072**	15,163
- Basic per share	**0.42**	0.43
- Diluted per share	**0.38**	0.36
Net property acquisitions (dispositions)	**152,523**	683
Capital expenditures	**150,167**	151,478
Total assets	**549,343**	290,307
Bank debt and working capital deficiency	**110,986**	27,838

Operations

- Average 2007 production was 8,509 boe per day compared to 5,285 boe per day during the same period in 2006, an increase of 61 percent while production per diluted share increased 28 percent during the same period.
- 2007 fourth quarter production averaged 9,680 boe per day compared to 6,080 boe per day in the fourth quarter of 2006, an increase of 59 percent while production per diluted share increased 25 percent during the same period.
- Natural gas production was 52,917 mcf per day during the fourth quarter of 2007 compared to 48,082 mcf per day during the third quarter of 2007 and 33,505 mcf per day in the fourth quarter of 2006.
- Crude oil and natural gas liquids production averaged 860 bbls per day during the fourth quarter of 2007 compared to 495 bbls per day in the fourth quarter of 2006.
- Drilled 70 gross wells (45.5 net) during the year with a 93 net percent success rate, resulting in 64 natural gas wells (42.3 net).
- During the year, the Company increased net undeveloped land to 433,000 net acres from 271,000 net acres at December 31, 2006. At December 31, 2007 undeveloped lands under the control of ProEx, including option acreage, is approximately 465,000 acres.

Financial

- Petroleum and natural gas revenue increased 57 percent to $132.2 million for the year compared to $84.0 million during the prior year.
- Average natural gas prices for 2007 were $6.64 per mcf consistent with the $6.84 per mcf in 2006.
- Funds generated from operations increased 70 percent to $73.8 million ($1.40 per diluted share) for the year compared to $43.5 million ($1.04 per diluted share) during the prior year resulting in a 35 percent increase to funds generated from operations per diluted share.
- Net earnings for the year was $20.1 million ($0.38 per diluted share) a 32 percent increase over the $15.2 million ($0.36 per diluted share) recorded in the prior year.
- Capital investment for 2007, excluding net property acquisitions (dispositions), was $150.2 million, slightly lower than the prior year at $151.5 million. Total capital investment, including the two strategic Foothills acquisitions during the year was $302.7 million compared to $152.2 million in 2006.
- Bank debt and working capital deficiency was $111.0 million at December 31, 2007 on a $185 million credit facility available at year end.

RESULTS OF OPERATIONS

Asset Acquisition

On April 2, 2007, ProEx acquired certain interests in northeast British Columbia Foothills assets previously acquired by Progress (the "Asset Acquisition"). ProEx's total consideration, including transaction costs of $0.9 million was $136.4 million. The Asset Acquisition was financed through an equity offering of 8,050,000 common shares of the Company at a price of $12.45 per share for aggregate gross proceeds of $100.2 million ($95.6 million net of issue costs). The remainder of the purchase price was financed through increased bank debt.

The Asset Acquisition included approximately 2,000 boe per day of production, 95 percent natural gas and approximately 80,000 net acres of undeveloped land.

Production

The following is a summary of daily production for the quarterly and annual periods indicated:

	2007					2006				
	Annual	**Q4**	Q3	Q2	Q1	Annual	Q4	Q3	Q2	Q1
Natural gas (mcf/d)	**46,838**	**52,917**	48,082	49,530	36,631	28,836	33,505	28,348	29,931	23,454
Crude oil (bbls/d)	**457**	**590**	438	414	384	335	343	331	352	314
Natural gas liquids (bbls/d)	**245**	**270**	225	239	246	144	152	148	163	112
Total production *(boe/d)*	**8,509**	**9,680**	8,677	8,909	6,735	5,285	6,080	5,204	5,503	4,335

ProEx's production for the year ended December 31, 2007 averaged 8,509 boe per day. The production was comprised of 457 bbls per day of crude oil, 245 bbls per day of natural gas liquids and 46,838 mcf per day of natural gas. Production increased 61 percent over the 5,285 boe per day recorded in the prior year due to the Asset Acquisition and the successful drilling.

Producing Areas

The following table summarizes the Company's average production by producing areas for the years ended December 31, 2007 and 2006.

(boe/d)	**2007**	2006
West Beg	**2,211**	2,391
Gundy and Town	**1,403**	1,384
Julienne	**1,140**	59
Altares/Bernadet	**901**	611
Buckinghorse/Caribou	**805**	-
Bubbles	**835**	-
Fort St. John Plains	**626**	729
Dogrib/Sasquatch	**562**	111
Blair	**26**	-
Total daily production	**8,509**	5,285

Commodity Pricing

Average Benchmark Prices	**2007**	2006
Natural gas – Station #2 *(Cdn $/mcf daily index)*	**6.44**	6.28
Natural gas – AECO *(Cdn $/mcf daily index)*	**6.51**	6.59
Natural gas – AECO *(Cdn $/mcf monthly index)*	**6.67**	7.05
Exchange rate *(US$/Cdn$)*	**1.0740**	1.1343
ProEx Realized Prices		
Natural gas ($/mcf)	**6.64**	6.84
Crude oil ($/bbl)	**74.80**	69.26
Natural gas liquids ($/bbl)	**68.49**	67.03

The first quarter of 2007 began with moderate weather and weak demand for natural gas. However, mid January brought unexpected winter storms and colder than normal weather across Canada and the northeastern United States ("U.S."). The resulting demand for natural gas created some of the largest monthly storage withdrawals in several years as supplies shrank below the benchmark 5 year average and recovered from the high levels reached in the fall of 2006. By the end of February, AECO gas prices had traded at the highest point they would see for the rest of

2007. The second quarter was typical of any shoulder season as moderate weather throughout most of the continent created minimal gas demand for either heating or cooling. Market pricing remained relatively flat while gas demand to re-fill storage absorbed any lower priced excess supply. Moderate weather throughout a majority of North America created minimal demand for natural gas during the third quarter. The supply situation was further compounded by the addition of substantial liquefied natural gas ("LNG") import volumes. The resulting situation created a buyers market for gas storage purchasers as they bought significant volumes in order to benefit from the declining prices of the over-supplied market. Gas prices continued to suffer from bearish fundamentals through October as warmer than normal weather and record high storage volumes created significant downward pressure. Crude oil prices which had steadily increased during the year jumped to new highs which provided price support to natural gas through the increased price of heating oil. Winter weather forecasts calling for colder than normal temperatures initially supported gas prices until those same forecasts were revised for warmer temperatures early in November. The week ending November 8th saw storage hit a total of 3.545 Tcf for a new all-time high which market analysts expected to be sufficient to cover any likely winter gas demand scenario. Late November saw cold weather move into the northeastern U.S. which had previously been forecast to warm through December. However, as the days passed, the forecast warming trend continued to be deferred but never actually occurred in December. The resulting storage withdrawals during December eliminated a sizable portion of year over year surplus and statistically placed the December 2007 storage total well within the 5 year average band.

Even though high storage volumes and the resulting oversupply of natural gas weighed heavily on prices through the year, prices for 2007 averaged U.S.$6.91 per million btu for the New York Mercantile Exchange ("NYMEX") and Cdn$6.11 per gigajoule ("gj") at the Canadian Alberta Energy Company interconnect with the TransCanada Alberta system ("AECO").

Looking toward 2008, we anticipate WTI oil prices will average within the US$75.00 to US$85.00 per barrel range and AECO natural gas to average between Cdn$6.50 to Cdn$7.00 per gj. ProEx produces predominantly light oil and high heat content, liquids rich, natural gas that attract premium market prices.

Natural Gas Pricing

The U.S. natural gas prices are typically referenced off NYMEX at Henry Hub, Louisiana while Alberta natural gas is referenced off the AECO Hub and British Columbia natural gas off of Sumas Washington or Station #2 market centers. Virtually all of ProEx's natural gas is sold at pricing based at one of the Alberta or British Columbia hubs. ProEx typically sells 50 percent of its natural gas production on monthly indexes and 50 percent on daily indexes.

Natural Gas Production and Prices by Province	**2007**		2006	
	Mcf/d	$/Mcf	Mcf/d	$/Mcf
British Columbia	**46,838**	**6.64**	**28,836**	**6.84**

British Columbia Natural Gas Prices	**2007**	2006
NYMEX *(US $/mmbtu 12 month average – last 3 Days)*	**6.91**	7.26
Less: Station #2 basis differential to Henry Hub *(US $/mmbtu)*	**(1.00)**	(1.78)
Station #2 *(US $/mmbtu)*	**5.91**	5.48
Average exchange rate	**1.0740**	1.1343
Station #2 price *(Cdn $/mcf daily index)* [1]	**6.44**	6.28
Premium: ProEx realized price vs spot	**0.20**	0.56
ProEx average British Columbia field price *(Cdn $/mcf)*	**6.64**	6.84

[1] *Converted from $/mmbtu to $/mcf using the Energy and Utilities Board conversion factor.*

Risk Management

During 2007, the Company entered into natural gas financial contracts for the purpose of protecting its funds generated from operations from the volatility of natural gas prices. For the year ended December 31, 2007 the Company's natural gas price risk management program had a net realized gain of $7.9 million (2006 - $2.5 million).

On January 1, 2007 the Company adopted the new accounting standards regarding the accounting for financial instruments. In addition to the adoption of the new standards, Management elected not to use hedge accounting and consequently records the fair value of its natural gas financial contracts at each reporting period with the change in the fair value being classified as unrealized gains and losses in the statement of earnings. The accounting for hedging relationships for prior fiscal periods are not retroactively changed, therefore, there was no restatement of the financial position or results of operation as at and for the year ended December 31, 2006.

On adoption, the Company recognized a current asset of $7.4 million for the fair value of its natural gas derivative contracts with a corresponding increase to accumulated other comprehensive income of $4.9 million (net of tax of $2.5 million). The $4.9 million in accumulated other comprehensive income was amortized through other comprehensive income and unrealized gain or loss on the statement of earnings over the term of the contracts. As a result, for the year ended December 31, 2007, $4.9 million, net of tax, was

charged to other comprehensive income with a corresponding unrealized gain on financial instruments of $7.4 million, and a charge to future income tax expense of $2.5 million. The unrealized gain of $7.4 million was offset by the change in fair value on the natural gas derivative contracts from January 1, 2007 of $7.4 million resulting in an unrealized gain of nil for 2007.

The Company's financial derivative trading activities are conducted pursuant to the Company's Risk Management Policy approved by the Board of Directors. The Risk Management Policy has the objectives of reducing risk exposure to budgeted annual funds generated from operations projections resulting from uncertainty or changes in commodity prices, interest rates or foreign exchange; limiting financial contract volumes up to a maximum of 50 percent of forecasted production, net of royalties (or higher subject to Board of Directors approval); and limiting financial derivative trading activity to counter-parties that provide sufficient collateral in support of payment or have investment grade credit ratings.

ProEx's commodity risk management positions are described in Note 9 in the audited financial statements. There were no natural gas derivative contracts outstanding as at December 31, 2007. Subsequent to year end the Company entered into natural gas derivative contracts for the period April 2008 to October 2008 for a total of 40,000 gj's per day using call spreads with a net floor price (net of premiums to be paid) of $6.93 per gj and a net ceiling price of $7.93 per gj.

Petroleum and Natural Gas Revenues

Petroleum and natural gas revenues for 2007 were $132.2 million, up 57 percent over the $84.0 million in revenues for 2006. Revenues consisted of $113.6 million in natural gas sales (2006 - $72.0 million), $12.5 million in crude oil sales (2006 - $8.5 million), and $6.1 million in natural gas liquid sales (2006 - $3.5 million). Increased petroleum and natural gas revenues over the prior year are the result of increased production on account of the Asset Acquisition and successful drilling during 2007.

($ thousands)	**2007**	2006
Revenues by product		
Natural gas	**113,551**	72,007
Crude oil	**12,483**	8,473
Natural gas liquids	**6,126**	3,520
Total petroleum and natural gas revenues	**132,160**	84,000

Royalties

Royalty expense consists of royalties paid to provincial governments, freehold landowners and overriding royalty owners. Royalties increased 26 percent to $29.5 million in 2007 from $23.4 million in 2006 due to higher revenues, as a result of higher production. ProEx's average royalty rate in 2007 was 22.4 percent compared to 27.9 percent in 2006. The decrease in the royalty rate is due to lower royalty rates on the properties acquired in the Asset Acquisition, which also included wells in which ProEx paid gross over riding royalties. Management anticipates that the average royalty rates for 2008 will be between 23 and 26 percent.

($ thousands, except where otherwise indicated)	**2007**	2006
Crown	**25,250**	17,931
Freehold and overriding	**4,296**	5,510
Total royalty expense	**29,546**	23,441
Royalties ($/boe)	**9.51**	12.15
Average royalty rate (%)	**22.4**	27.9

($ thousands, except where otherwise indicated)	**2007**	2006
Royalties by product		
Natural gas royalties	**25,927**	20,698
$/boe	**9.10**	11.80
Average natural gas royalty rate (%)	**22.8**	28.7
Natural gas liquids royalties	**1,328**	885
$/boe	**14.85**	16.85
Average natural gas liquids royalty rate (%)	**21.7**	25.1
Crude oil royalties	**2,291**	1,858
$/boe	**13.73**	15.19
Average crude oil royalty rate (%)	**18.4**	21.9

Operating Expenses

Operating expenses for 2007 were $15.8 million compared to $9.2 million for 2006. The increase is due to higher production in 2007 as a result of the Asset Acquisition and successful drilling. On a per boe basis, operating expenses for 2007 increased seven percent to $5.09 from $4.75 in 2006. Slightly higher operating costs on the properties acquired in the Asset Acquisition increased the operating

cost per boe. Operating costs per boe have been trending downwards since the second quarter of 2007 as ProEx continues to optimize the acquired assets. Management anticipates 2008 normalized operating expenses to be in the $5.00 to $5.30 per boe range.

($ thousands, except where otherwise indicated)	**2007**	2006
Operating expenses - natural gas properties	**14,578**	8,230
$/boe	**4.97**	4.49
Operating expenses – crude oil properties	**1,241**	942
$/boe	**7.25**	9.82
Operating expenses – all properties	**15,819**	9,172
$/boe	**5.09**	4.75

Transportation Expenses

Transportation expenses were $12.7 million for 2007 compared to $7.0 million for 2006. The increase was due to increased production in 2007. On a per boe basis, transportation expenses were $4.10 in 2007 compared to $3.60 in 2006. Higher per boe costs in 2007 was due to higher transportation and treatment tolls associated with the Asset Acquisition, including higher treatment tolls associated with Slave Point production processed through the Keyera-owned Caribou gas plant. Although Management favorably renegotiated the terms of the Caribou gas plant, the benefit will only be recognized in 2008. In British Columbia, there is an infrastructure owned by Spectra Energy that enables gas producers to avoid facility construction in exchange for regulated gathering, processing and transmission fees. This all-in charge is included in transportation expenses. Management anticipates for 2008 that average transportation costs will be in the $4.20 to $4.50 per boe range

Operating Netbacks by Product

Although many wells produce both crude oil and natural gas, a well is categorized as a natural gas well or an oil well based upon the higher proportion of natural gas or crude oil production. The following table summarizes the operating netbacks for natural gas, crude oil and all properties combined for the year and for the prior year.

	2007	2006
Natural gas properties ($/mcf)		
Sales price	**6.88**	6.84
Realized gain on financial instruments	**0.45**	0.23
Royalties	**(1.58)**	(2.04)
Transportation expenses	**(0.70)**	(0.61)
Operating expenses	**(0.83)**	(0.75)
Operating netback – natural gas properties	**4.22**	3.67
Crude oil properties ($/bbl)		
Sales price	**64.37**	63.91
Royalties	**(9.82)**	(9.94)
Transportation expenses	**(1.87)**	(2.47)
Operating expenses	**(7.25)**	(9.82)
Operating netback – oil properties	**45.43**	41.68
All properties ($/boe)		
Sales price	**42.55**	43.55
Realized gain on financial instruments	**2.56**	1.31
Royalties	**(9.51)**	(12.15)
Transportation expenses	**(4.10)**	(3.60)
Operating expenses	**(5.09)**	(4.75)
Operating netback – all properties	**26.41**	24.36

General and Administrative Expenses

For 2007, general and administrative expenses ("G&A"), net of operator recoveries and capitalized expenses were $2.9 million ($0.93 per boe) compared to $1.7 million ($0.88 per boe) in the prior year. The Company incurred higher technical service fees from Progress as compared to the prior year due to the Company's increased activity levels and production volumes during the year. Progress provides these services to ProEx on an expense reimbursement basis, based on ProEx's monthly capital activity and production levels relative to the combined capital activity and production levels of both Progress and ProEx (computed in accordance to the Technical Services Agreement – see "Relationship with Progress"). Higher gross G&A was partially offset by higher operator recoveries due to an increase in wells operated by ProEx as a result of the Asset Acquisition and drilling activity . Management forecasts G&A expenses for 2007 to average in the $1.00 to $1.10 per boe range.

($ thousands)	**2007**	2006
Direct expenses	**1,852**	850
Technical services fee from Progress	**5,368**	4,521
Gross G&A	**7,220**	5,371
Operator recoveries	**(3,048)**	(2,676)
Capitalized expenses	**(1,281)**	(993)
Total G&A	**2,891**	1,702
Total G&A *($boe)*	**0.93**	0.88

Interest and Financing Expense

Interest and financing charges for 2007 were $4.3 million ($1.38 per boe) compared to $1.3 million ($0.68 per boe) for 2006. The increase in interest and financing charges for the year as compared to the prior year, was a result of higher average debt levels to finance a portion of the Asset Acquisition in addition to the capital expenditures incurred during the year. Details of ProEx's bank debt are described in the Capitalization and Capital Resources section below and Note 4 in the audited financial statements.

Long Term Incentive Compensation Expense

For 2007, long term incentive compensation expense, relating to outstanding stock options, Class B Performance Shares and the Progress long term incentive compensation plan (the "LTI"), was $2.9 million ($0.92 per boe) compared to $1.7 million ($0.75 per boe) for 2006. The increase in compensation expense per boe over the prior year is primarily a result of the issuance of 1.2 million stock options during 2007 in addition to the expense relating to the new LTI. At December 31, 2007 there were 1,933,501 options outstanding at a weighted average exercise price of $12.63 (2006 – 778,334 options at a weighted average price of $10.63).

During the second quarter of 2007, the LTI was established for the benefit of the non-executive Progress employees. ProEx agreed to contribute to the LTI to ensure that service providers retain incentives related to the success of ProEx. On May 3, 2007, Progress granted an award of 173,789 common shares of ProEx to Progress employees, in their capacity as service providers to ProEx, resulting in a total compensation cost of $2.4 million. ProEx has agreed to reimburse Progress for this expense, the amount of which has been recorded as a prepaid expense and will be amortized through long term incentive compensation expense over the two year vesting period. Awards granted under the LTI will vest on the second anniversary date of the date of grant. During the year, all of the shares required to fulfill the initial LTI grant were acquired from the open market by Progress and the cost was reimbursed by ProEx. ProEx's long term incentive compensation plans are described in Note 6 in the audit financial statements.

Depletion, Depreciation and Accretion Expense

For 2007, depletion and depreciation of capital assets and the accretion of the asset retirement obligations ("DD&A") was $47.5 million compared to $21.5 million for 2006. On a boe basis, DD&A expense for 2007 was $15.29 compared to $11.17 for 2006. The increase in DD&A was primarily due to the Asset Acquisition.

($ thousands)	**2007**	2006
Depletion	**47,034**	21,357
Depreciation	**3**	3
Accretion	**432**	183
Total depletion, depreciation and accretion	**47,469**	21,543
DD&A ($/boe)	**15.29**	11.17
Depletion and depreciation rate (%)	**11.0**	10.6

Future Income Taxes

Future income tax expense for 2007 was $4.5 million (18.3 percent effective rate) compared to $6.4 million (29.8 percent effective rate) for 2006. The current year provision includes a recovery of $4.2 million relating to a reduction in future federal and provincial income tax rates enacted during the year. The Company has approximately $441.0 million of federal tax pools to shelter taxable income in future years. The federal tax pools are as follows:

($ thousands)	**2007**	2006
Canadian Exploration Expense	**88,000**	61,000
Canadian Development Expense	**111,000**	74,000
Canadian Oil and Gas Property Expense	**152,000**	44,000
Undepreciated Capital Cost	**80,000**	42,000
Other	**10,000**	5,000
Total tax pools	**441,000**	226,000

Net Earnings, Comprehensive Income and Funds Generated from Operations

Net earnings for 2007 of $20.1 million was 32 percent higher than 2006 of $15.2 million. The increase was due to higher revenues as a result of higher production in the year, as well as future income tax recoveries due to a reduction in future federal and provincial income tax rates enacted during the year. Basic net earnings per share for 2007 was $0.42 per share (2006 - $0.43 per share), while diluted net earnings per share for the year was $0.38 (2006 - $0.36 per share).

Other comprehensive income for 2007 includes a charge of $4.9 million for the amortization of the amount recognized in accumulated other comprehensive income on the adoption of the new accounting standards for financial instruments (see the "Risk Management" section above). This resulted in total comprehensive income for 2007 of $15.1 million (2006 - $15.2 million).

Funds generated from operations increased 70 percent in 2007 to $73.8 million, compared to $43.5 million for 2006. The increase was due to higher revenues from increased production as a result of the Asset Acquisition and successful drilling. Funds generated from operations per basic share for the year was $1.56 per share (2006 - $1.23 per share), while funds generated from operations per diluted share for the year was $1.40 (2006 - $1.04 per share).

On a per boe basis, net income was $6.46 per boe during the year compared to $7.86 for 2006. Funds generated from operations was $23.77 per boe during the year compared to $22.57 per boe in the prior year.

The following table summarizes the netbacks, funds generated from operations and net earnings on a barrel of oil equivalent basis for 2007 and 2006:

($/boe)	**2007**	2006
Petroleum and natural gas revenues	**42.55**	43.54
Royalties	**(9.51)**	(12.15)
	33.04	31.39
Realized gain on financial instruments	**2.56**	1.31
Interest income	**0.02**	-
	35.62	32.70
Operating expenses	**(5.09)**	(4.75)
Transportation expenses	**(4.10)**	(3.60)
Operating netback	**26.43**	24.35
General and administrative expenses	**(0.93)**	(0.88)
Long term incentive – cash component	**(0.24)**	-
Interest expenses	**(1.38)**	(0.68)
Asset retirement expenditures [1]	**(0.11)**	(0.22)
Funds generated from operations	**23.77**	22.57
Asset retirement expenditures [1]	**0.11**	0.22
Stock based compensation expense	**(0.68)**	(0.43)
Depletion, depreciation and accretion expenses	**(15.29)**	(11.17)
Net earnings before taxes	**7.91**	11.19
Future income taxes	**(1.45)**	(3.33)
Net earnings	**6.46**	7.86

[1] *Actual asset retirement costs incurred during the year are classified for cash flow purposes on the statement of cash flows as an operating item, however these costs are not an expense of the period and are therefore added back for purposes of determining net earnings.*

QUARTERLY FINANCIAL SUMMARY

The following table highlights ProEx's performance for the three month reporting periods from January 1, 2006 to December 31, 2007:

	2007				2006			
($ thousands, except per share amounts)	**Dec 31**	**Sept 30**	**June 30**	**Mar 31**	Dec 31	Sept 30	June 30	Mar 31
Petroleum and natural gas sales	**38,057**	**28,231**	**37,347**	**28,524**	23,386	19,419	20,723	20,472
Funds generated from operations	**22,098**	**15,176**	**18,628**	**17,907**	13,995	8,766	10,118	10,653
-Per share basic	**0.42**	**0.31**	**0.39**	**0.45**	0.37	0.24	0.29	0.32
-Per share diluted	**0.39**	**0.28**	**0.35**	**0.39**	0.32	0.21	0.25	0.26
Net earnings	**7,725**	**716**	**7,564**	**4,066**	4,293	2,627	3,978	4,265
-Per share basic	**0.15**	**0.01**	**0.16**	**0.10**	0.11	0.07	0.12	0.13
-Per share diluted	**0.14**	**0.01**	**0.14**	**0.09**	0.10	0.06	0.10	0.11
Total assets	**549,343**	**484,888**	**470,906**	**339,252**	290,307	246,227	217,078	192,613
Bank debt and working capital deficiency	**110,986**	**59,352**	**88,411**	**69,858**	27,838	41,499	18,364	49,126

Lower petroleum and natural gas revenue, funds generated from operations and net earnings in the first three quarters of 2006 was due to a sharp decline in natural gas prices, while the fourth quarter of 2006 and first and second quarters of 2007 increased due to consistent production growth and strengthening natural gas prices. The third quarter of 2007 experienced declines in realized natural gas prices which was reflected in the lower revenues, funds generated from operations and net earnings amounts. Production increases and higher natural gas prices in the fourth quarter of 2007 led to higher revenues, funds generated from operations and net earnings.

COMMON SHARE INFORMATION

(thousands)	**2007**	2006
Weighted average outstanding common shares		
- Basic	**47,326**	35,336
- Diluted	**52,702**	41,749
Outstanding securities at December 31,		
- Common shares	**52,528**	39,691
- Common share options	**1,934**	778
- Common share warrants	**4,765**	6,144
- Diluted common shares outstanding	**59,227**	46,613
- Class B performance shares	**551**	695
Outstanding securities at February 25, 2008		
- Common shares	**52,903**	
- Common share options	**1,934**	
- Common share warrants	**4,447**	
- Diluted common shares outstanding	**59,284**	
- Class B performance shares	**524**	

Per Share Information

($ thousand, except per share amounts)	**2007**	2006
Net earnings	**20,072**	15,163
Net earnings per share		
- Basic	**0.42**	0.43
- Diluted	**0.38**	0.36
Funds generated from operations	**73,808**	43,531
Funds generated from operations per share		
- Basic	**1.56**	1.23
- Diluted	**1.40**	1.04

On a per share basis, net earnings for 2007 was consistent with 2006, while on a diluted basis, net earnings per share increased six percent. Funds generated from operations per basic share increased by 27 percent in 2007 compared to 2006 while funds generated from operations per diluted share increased 35 percent.

INVESTMENT

Capital Investment

During 2007 the Company invested approximately $150.2 million with the drilling of 70 gross wells (45.5 net) for a success rate of 91 percent (93 percent net). The net property acquisitions include the Asset Acquisition completed on April 2, 2007 for $136.4 million, as well as an asset acquisition in the Blair and Cameron areas of the Foothills region completed November 30, 2007 for $14.3 million. The following table summarizes the capital investments for 2007 and 2006.

($ thousands)	**2007**	2006
Land acquisitions and retention	**6,266**	17,146
Geological and geophysical	**11,175**	10,252
Drilling and completions	**109,939**	95,913
Equipping and facilities	**22,787**	28,158
Corporate assets	**-**	9
Total exploration and development capital	**150,167**	151,478
Net property acquisitions (dispositions)	**152,523**	683
Total capital expenditures	**302,690**	152,161

Drilling results

	2007		2006	
	Gross	**Net**	Gross	Net
Crude oil	**-**	**-**	3	1.3
Natural gas	**64**	**42.3**	57	41.0
Dry and abandoned	**6**	**3.2**	3	1.7
Total	**70**	**45.5**	63	44.0
Success rate (%)	**91**	**93**	95	96

Undeveloped Land

ProEx has undeveloped land at December 31, 2007 of approximately 433,000 net acres and in addition has access to approximately 32,000 acres of option lands for a total acreage under its control of approximately 465,000. Approximately 409,000 net acres (95 percent) of the undeveloped lands are in the Foothills region of northeast British Columbia and ProEx's average interest in these lands is 62 percent. Including option lands, ProEx has 441,000 acres or 95 percent of its acreage in the Foothills region. The balance of the northeast British Columbia undeveloped lands are in the Fort St. John Plains region where the Company has an average working interest of 21 percent.

Undeveloped Land Additions

During 2007 ProEx acquired approximately 86,000 net acres of undeveloped land included in the Asset Acquisition, approximately 33,000 net acres acquired in the Blair and Cameron areas of the Foothills region and purchased approximately 53,000 net acres at Crown land sales. ProEx has an average working interest in its undeveloped land base of 56 percent. ProEx continues to generate opportunities to earn land through farm-ins with 50 sections of option lands available to it at December 31, 2007. Over the next twelve months, 11 percent of ProEx's net undeveloped acreage will be subject to expiry. With an active drilling program, ProEx anticipates minimal undeveloped acres expiring in 2008.

Option Land Additions

At December 31, 2007, ProEx has 32,000 gross acres of land in its core areas in British Columbia on which it has the option to earn an interest. Of these option lands, 100 percent are in the Foothills region of British Columbia. These lands are subject to various agreements whereby the Company must perform certain activities to earn an interest in the lands. The term of these agreements extend through various terms to August 2008.

	2007		2006	
	Gross	**Net**	Gross	Net
Foothills – British Columbia	**663,000**	**409,000**	322,000	246,000
Fort St. John Plains – British Columbia	**112,000**	**24,000**	126,000	25,000
Total owned British Columbia undeveloped lands	**775,000**	**433,000**	448,000	271,000
Total controlled British Columbia option lands	**32,000**	**-**	14,000	-

CAPITALIZATION AND CAPITAL RESOURCES

The Company's total capitalization was $757.8 million at December 31, 2007 with a market value of common shares representing 82 percent of total capitalization and total debt representing 14 percent of total capitalization. The market value of the Company's common shares at December 31, 2007 was $621.4 million compared to $510.0 million in the prior year.

(thousands except per share amounts)	%	2007	%	2006
Common shares outstanding		**52,528**		39,691
Share price [1]		**11.83**		12.85
Total market capitalization	**82**	**621,406**	93	510,029
Working capital deficiency		**14,105**		2,035
Bank debt		**96,881**		25,803
Total debt	**14**	**110,986**	5	27,838
Asset retirement obligations	**1**	**5,691**	-	1,791
Future income tax liability	**3**	**19,752**	2	11,291
Total capitalization	**100**	**757,835**	100	550,949
Total debt to total capitalization (%)		**15**		5

[1] Represents the closing price on the TSX on December 31.

Bank Facility

At December 31, 2007 the Company had $96.9 million outstanding on its $185 million credit facilities and a working capital deficit of $14.1 million, resulting in $111.0 million of total debt. In June of 2007, the Company amended its' existing credit facilities agreement with its' lender from a demand revolving operating credit facility to an extendable revolving term credit facility. In accordance with the terms of the new revolving term credit facilities, the Company now classifies bank debt as a long term liability on its balance sheet. In the third quarter of 2007, the Company increased the credit facility borrowing base from $150 million to $185 million. The credit facilities consist of a $175 million extendible revolving term credit facility and a $10 million working capital credit facility with a syndicate of Canadian chartered banks. The facilities are available on a revolving basis for a period of at least 364 days until June 21, 2008, and such initial term out date may be extended for further 364 day periods at the request of the Company, subject to approval by the banks. Following the term out date, the facilities will be available on a non-revolving basis for a one year term, at which time the facilities would be due and payable. The facility is a borrowing base facility that is determined based on, among other things, the Company's current reserve report, results of operations, current and forecasted commodity prices and the current economic environment.

Investing Program Funding

($ thousands)	2007	2006
Cash and short term investments, beginning of year	-	667
Funds generated from operations	**73,808**	43,531
Changes in non-cash working capital	**12,069**	(7,906)
Issue of common shares (net of share issue costs)	**145,735**	90,066
Increase in bank debt	**71,078**	25,803
Less cash and short term investments, end of period	-	-
Capital expenditures and asset acquisitions during the year	**302,690**	152,161

The Company's 2007 capital investment program was funded by funds generated from operations and two equity offerings during the year. On April 2, 2007, ProEx issued 8,050,000 common shares at a price of $12.45 per share for aggregate gross proceeds of $100.2 million ($95.6 million net of issue costs) to finance the Asset Acquisition (see "Asset Acquisition" section above).

On September 12, 2007 ProEx issued 1,830,000 common shares at a price of $13.70 per common share and 1,420,000 flow-through common shares at a price of $17.65 per flow-through common share. The aggregate proceeds, net of share issue costs of $2.3 million ($1.6 million net of tax) were $47.8 million. The proceeds were used to reduce outstanding bank debt.

Working Capital

The capital intensive nature of the Company's activities may create a negative working capital position in years with high levels of capital investment. The working capital deficiency increased from $2.0 million as at December 31, 2006 to $14.1 million as at December 31, 2007 due to increased accounts payable as a result of increased capital expenditures for the fourth quarter of 2007 ($60.0 million) compared to the fourth quarter of 2006 ($43.5 million).

Substantially all of the Company's petroleum and natural gas production is marketed by Progress under standard industry terms and in accordance with the terms of the Technical Services Agreement. Accounts payable consist of amounts payable to suppliers, field operating activities and capital spending activities. These invoices are processed within the Company's normal payment period. At December 31, 2007 the Company had no material accounts receivable that it deemed uncollectible.

The Company actively manages its capital structure. The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute on its capital investment program, which includes investing in oil and gas activities which may or may not be successful. Therefore the Company continually strives to balance the proportion of debt and equity in its capital structure to take into account the level of risk being incurred in its capital expenditures.

In order to maintain or adjust the capital structure, the Company will consider: its forecasted debt to forecasted funds flow from operations ratio while attempting to finance an acceptable investment program including incremental investment and acquisition opportunities; the current level of bank credit available from the bank syndicate; the level of bank credit that may be obtainable from its banking syndicate as a result of natural gas reserve growth; the availability of other sources of debt with different characteristics than the existing bank debt; the sale of assets; limiting the size of the investment program and new common equity if available on favorable terms.

Off-Balance Sheet Arrangements

ProEx has no guarantees or off-balance sheet arrangements except for certain lease agreements. ProEx has certain lease agreements that are entered into in the normal course of operations. All leases are treated as operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the balance sheet as at December 31, 2007. The total future obligation from these operating leases is described below in the section "Contractual Obligations and Commitments".

Contractual Obligations and Commitments

The Company has an extendible revolving term credit facility with a syndicate of Canadian chartered banks and is available on a revolving basis until June 21, 2008. This initial term out date may be extended for a further 364 day period at the request of the Company, subject to approval by the banks. Following the term out date, the facilities will be available on a non-revolving basis for a one year term, at which time the facilities would be due and payable. Management believes that the facilities will be extended for a further 364 day period by June 21, 2008.

ProEx contracts for firm transportation on the Spectra Energy system in British Columbia as well as transportation and processing services at other gas plants in northeast British Columbia.

As part of the Company's land capture strategy, it will commit to industry partners to drill wells, and or shoot seismic in order to earn positions in contiguous land blocks. As at December 31, 2007, ProEx had commitments to drill and complete three wells costing approximately $3.3 million (net) in 2008 which will earn lands from area competitors in the Foothills region of northeast British Columbia. These commitments are scheduled in the Company's 2008 capital investment plans.

The Company must pay Crown royalties, surface rentals, mineral taxes and abandonment and reclamation costs with respect to its ongoing ownership of hydrocarbon production rights. The amount paid with respect to these burdens will depend on the future ownership, production, commodity prices and regulatory environment at the time.

In addition, subsequent to December 31, 2007, the Company entered into several derivative financial instruments under its commodity risk management program, the terms and commitments of which are disclosed in note 9 of the financial statement. The future premiums ProEx is committed to pay are included in the table below.

The Company's future contractual commitments are highlighted below.

($ thousands)	Total	2008	2009	2010	2011	2012
Bank debt [(1)]	96,881	-	96,881	-	-	-
Gas transmission and treatment	51,964	16,269	15,901	13,688	6,106	-
Drilling rig commitments	1,779	1,779	-	-	-	-
Operating leases	3,159	2,146	881	132	-	-
Farm-in commitments	3,280	3,280	-	-	-	-
Financial instrument premiums	3,189	3,189	-	-	-	-
Total contractual obligations	160,252	26,663	113,663	13,820	6,106	-

[(1)] Based on existing terms of the revolving term credit facility, however Management believes the term will be extended for a further 364 day period by June 21, 2008, the next renewal date.

SELECTED QUARTERLY INFORMATION AND FOURTH QUARTER ANALYSIS

	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Operational Results					
Production					
-Natural gas *(mcf/d)*	**52,917**	48,082	49,530	36,631	33,505
-Crude oil *(bbls/d)*	**590**	438	414	384	343
-Natural gas liquids *(bbls/d)*	**270**	225	239	246	152
-Total production *(boe/d)*	**9,680**	8,677	8,909	6,735	6,080
Pricing					
-Natural gas *($/mcf)*	**6.48**	5.36	7.40	7.57	6.71
-Crude oil *($/bbl)*	**83.77**	77.64	68.32	64.46	60.87
-Natural gas liquids *($/bbl)*	**78.11**	66.98	66.29	61.24	56.35
Selected Financial Results *($ thousands, except per share amounts)*					
Petroleum and natural gas revenue	**38,057**	28,231	37,347	28,524	23,386
Royalties	**7,031**	6,349	8,609	7,557	6,367
Realized gain on financial instruments	**1,257**	3,107	38	3,535	2,524
Operating expenses	**4,511**	4,062	4,339	2,907	2,586
Transportation expenses	**3,615**	3,250	3,635	2,232	2,037
General and administrative expenses	**478**	929	774	710	361
Interest and financing expenses	**1,227**	1,268	1,299	490	518
Funds generated from operations	**22,098**	15,176	18,628	17,907	13,995
Depletion, depreciation and accretion expense	**13,339**	13,037	13,000	8,093	7,600
Net earnings	**7,725**	716	7,564	4,066	4,293
-Basic per share	**0.15**	0.01	0.16	0.10	0.11
-Diluted per share	**0.14**	0.01	0.14	0.09	0.10
Capital Spending					
-Exploration and development	**59,340**	33,992	6,591	50,244	43,484
-Net acquisitions and dispositions	**14,680**	591	137,008	244	53
Total capital expenditures	**74,020**	34,583	143,599	50,488	43,537
Bank debt and working capital deficiency (surplus)	**110,986**	59,352	88,411	69,858	27,838
Shareholders' equity	**389,350**	380,727	331,044	225,866	225,398
Common shares outstanding	**52,528**	52,362	48,548	39,829	39,691

Production

Production during the fourth quarter of 2007 (the "Quarter") of 9,680 boe per day was 12 percent higher than the third quarter of 2007 of 8,677 boe per day and 59 percent higher than the fourth quarter of 2006 of 6,080 boe per day. The increase in production over the third quarter of 2007 was due to successful drilling and tie-in work performed during the Quarter. The increase in production over the fourth quarter of 2006 was due to the Asset Acquisition and the successful 2007 capital program.

Petroleum and Natural Gas Revenues

Petroleum and natural gas revenues for the Quarter increased 35 percent to $38.1 million compared to the third quarter of 2007 of $28.2 million and increased 63 percent over the fourth quarter of 2006 of $23.4 million. Contributing to the increase over the third quarter of 2007 was the increase in production and a 21 percent increase in realized natural gas prices to $6.48 per mcf in the Quarter compared to $5.36 per mcf in the third quarter of 2007. The increase in revenues over the fourth quarter of 2006 was due to the increase in production.

Royalties

Royalties for the Quarter increased 11 percent to $7.0 million compared to the third quarter of 2007 of $6.3 million and increased 10 percent over the fourth quarter of 2006 of $6.4 million. The increase was due to the increase in revenues compared to those periods. The average royalty rate decreased to 18.5 percent for the Quarter compared to 22.5 percent for the third quarter of 2007 and 27.2 percent for the fourth quarter of 2006. The decrease was due to royalty credits received during the Quarter.

Operating Expenses

Operating expenses for the Quarter increased 11 percent to $4.5 million from $4.1 million in the third quarter of 2007 due to increased production. Operating expenses for the Quarter were 74 percent higher than the fourth quarter of 2006 of $2.6 million due to increased production, as well as higher operating costs on the properties acquired in the Asset Acquisition. On a boe basis, operating expenses in the Quarter decreased slightly to $5.07 from the $5.09 that was realized in the third quarter of 2007 and increased 10 percent over the fourth quarter of 2006 of $4.62.

Transportation Expenses

Transportation expenses for the Quarter of $3.6 million ($4.06 per boe) was 11 percent higher than the third quarter of 2007 of $3.3 million ($4.07 per boe) due to the increase in production. Transportation expenses for the Quarter were 77 percent higher than the fourth quarter of 2006 of $2.0 million ($3.64 per boe) on account of higher production, as well as higher transportation and treatment tolls associated with the Asset Acquisition including higher treatment tolls associated with Slave Point production processed through the Keyera-owned Caribou gas plant. Although Management favorably renegotiated the terms of the Caribou gas plant, the benefit will only be recognized in 2008. In British Columbia, Spectra Energy owns the infrastructure that enables gas producers to avoid facility construction in exchange for regulated gathering, processing and transmission fees. This all-in charge is included in transportation expenses.

General and Administrative Expenses

For the Quarter, G&A expenses of $0.5 million were 49 percent lower than the third quarter of 2007 of $0.9 million on account of higher operator recoveries from higher capital spending. G&A expenses for the Quarter were 32 percent higher than the fourth quarter of 2006 of $0.4 million due to higher technical service fees from Progress as a result of the increased activity and production levels partially offset by higher recoveries and capitalized expenses. On a per boe basis, G&A expenses for the Quarter of $0.54 decreased 53 percent from the third quarter of 2007 of $1.16, consistent with change in total G&A. On a per boe basis, G&A expenses for the Quarter decreased 17 percent from the fourth quarter of 2006 of $0.65 due to the increase in production exceeding the increase in total G&A.

($ thousands)	**Q4 2007**	Q3 2007	Q4 2006
Direct expenses	**422**	254	451
Technical services fee from Progress	**1,635**	1,540	1,103
Gross G&A	**2,057**	1,794	1,554
Operator recoveries	**(951)**	(623)	(867)
Capitalized expenses	**(628)**	(242)	(326)
Total G&A	**478**	929	361
Total G&A *($boe)*	**0.54**	1.16	0.65

Interest and Financing Expenses

Interest and financing expenses for the Quarter was $1.2 million, consistent with the third quarter of 2007 of $1.3 million and 137 percent higher than the fourth quarter of 2006 of $0.5 million due to increased debt as a result of the Asset Acquisition and capital spending during 2007. On a boe basis, interest and financing expenses for the Quarter were $1.38 compared to $1.59 for the third quarter of 2007 and $0.93 for the fourth quarter of 2006.

Depletion, Depreciation and Accretion

For the Quarter, DD&A expenses of $13.3 million was consistent with the third quarter of 2007 of $13.0 million and increased 76 percent from the fourth quarter of 2006 of $7.6 million. On a boe basis, DD&A was $14.98 for the Quarter compared to $16.33 for the third quarter of 2007 and $13.59 for the fourth quarter of 2006. The increase over the fourth quarter of 2006 is due to the Asset Acquisition.

Income taxes

Future income taxes were a recovery of $0.7 million for the Quarter compared to an expense of $0.5 million for the third quarter of 2007 and an expense of $1.9 million for the fourth quarter of 2006. The provision for the Quarter includes a $3.7 million recovery relating the reduction in future federal income tax rates enacted during the Quarter.

Net Earnings and Funds Generated From Operations

Net earnings for the Quarter increased to $7.7 million ($0.15 per basic share, $0.14 per diluted share) from $0.7 million ($0.01 per basic and diluted share) recognized in the third quarter of 2007. Net earnings for the Quarter were 80 percent higher than the fourth quarter of 2006 of $4.3 million ($0.11 per basic share, $0.10 per diluted share). The increase was due to both higher revenues in the Quarter, as well as the future income tax recovery described above.

Funds generated from operations for the Quarter were $22.1 million ($0.42 per basic share, $0.39 per diluted share), a 46 percent increase over the $15.2 million ($0.31 per basic share, $0.28 per diluted share) for the third quarter of 2007. The increase was due to increased production and natural gas prices. Funds generated from operations for the Quarter was 58 percent higher than the fourth quarter of 2006 of $14.0 million ($0.37 per basic share, $0.32 per diluted share). The increase was due to increased revenues as a result of the Asset Acquisition and the successful 2007 capital program.

Capital Investment

Exploration and development expenditures during the Quarter of $59.3 million was 75 percent higher than the $34.0 million spent in the third quarter of 2007 and 36 percent higher than the $43.5 million spent in the fourth quarter of 2006. The increase in the Quarter compared to the third quarter of 2007 was due to the timing of capital projects as ProEx typically conducts more drilling in the fourth quarter than in the third. The increase over the fourth quarter of 2006 is due to the increased size of the Company. During the Quarter, ProEx acquired certain petroleum and natural gas assets in the Blair and Cameron areas of the Foothills region for $14.3 million.

ENVIRONMENT, HEALTH AND SAFETY

ProEx places a high priority on preserving the quality of its environment and protecting the health and safety of its employees, contractors and the public in communities in which it lives and works. ProEx actively participates in industry-recognized programs at the highest possible levels in an effort to support continuous improvement.

ProEx is committed to meeting its responsibilities to protect the environment through a variety of programs and actively monitoring its compliance with all regulators. ProEx strives to employ capital and energy efficient methods to minimize its footprint and maximize the recovery of its resources. In 2007 ProEx achieved the Canadian Association of Petroleum Producers ("CAAP") highest level, "Platinum". Platinum stewardship means that ProEx has demonstrated by audit and by statistics that its safety & environment management system has good sound effective leadership and performance in the areas of health, safety, environment and social responsibility.

ProEx participated in the Environment, Health and Safety Stewardship Program developed by CAAP. ProEx's participation requires its commitment to continuous improvement in its environment, health and safety ("EHS") management practices including sound planning and implementation, open communication and demonstrated performance and a thorough external audit of its activities at least once every 3 years. ProEx also conducted a company wide EH&S Management System audit in 2007. An action plan was spawned that included Safety Leadership Training for Supervisors; Hazard Assessment Training for Operators and Supervisors; the development of site specific work procedures and the development of policies outlining Social Responsibility.

ProEx continually works to improve its health and safety performance through increased awareness in the field by frequently communicating safety responsibilities to our employees and contractors and by issuing and sharing safety information. Health and safety is increasingly more visible in the field and ProEx is becoming more active with contractor safety management through industry committee participation and the promotion of industry recognized best practices.

In 2007, ProEx's overall safety and environmental performance remained relatively static compared to 2006. Contractor safety statistics have increased in part due to enhanced reporting and tracking practices. There was no employee lost time incidents in 2007 or 2006. A total of 15 recordable injury incidents, all contractors, were recorded in 2007, compared to nine incidents in 2006. ProEx's contractors had three lost-time incidents in 2007 compared to two in 2006.

ProEx is committed to environmental stewardship and the health and safety of its employees, contractors and the general public in the communities in which it operates.

OUTLOOK AND 2008 BUDGET

With the Company's extensive exploration and development drilling inventory, undeveloped land position, low finding costs and balance sheet strength, it is well positioned to capitalize on its opportunities in 2008 and beyond. Our exploration land base in northeast British Columbia has grown very rapidly to approximately 465,000 acres under our control. With the results from our 2007 drilling program and over 2,000 square kilometers of 3-D seismic data in the Foothills, we have developed an extensive knowledge of the subsurface and the opportunities to expand the Halfway tight gas play as well as Cretaceous and the Debolt intervals.

We expect to invest approximately $150 million in 2008, almost exclusively in the Foothills region in northeast British Columbia. Approximately 20 percent of the capital program will be invested in land capture and seismic data acquisition to continuously expand our inventory of drilling opportunities. We are targeting average production for 2008 of between 12,000 to 13,000 boe per day and exiting the year between 14,000 to 15,000 boe per day. We anticipate funding our 2008 investment program with funds generated from operations and the existing bank debt facility.

2008 Sensitivities

Based on the above assumptions, the following sensitivities are provided to demonstrate the impact on funds generated from operations and net earnings of changes in commodity prices, and interest rates.

($ thousand)	Funds generated from operations	Net earnings
Impact on the year ended December 31, 2008		
- Change in Canadian crude oil price by $1.00 per barrel	60	43
- Change in average field price of natural gas by Cdn $0.25 per mcf	4,924	3,497
- Change of 1% in prime interest rates	1,393	989

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements in accordance with Canadian GAAP requires Management to make judgments and estimates that affect the financial results of the Company. ProEx's Management reviews its estimates regularly, but new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. A summary of significant accounting policies are presented in Note 1 to the financial statements. The critical estimates are discussed below:

Petroleum and Natural Gas Reserves

All of ProEx's petroleum and natural gas reserves are evaluated and reported on by independent petroleum engineering consultants in accordance with Canadian Securities Administrators' National Instrument 51-101 ("NI 51-101"). The evaluation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, commodity prices and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. The Company expects that its estimates of reserves will change to reflect updated information. Reserve estimates can be revised upward or downward based on the results of future drilling, testing, production levels and changes in costs and commodity prices.

Depletion Expense

The Company uses the full cost method of accounting for exploration and development activities whereby all costs associated with these activities are capitalized, whether successful or not. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development capital is amortized using the unit-of-production method based on estimated proved reserves. Changes in estimated proved reserves or future development capital have a direct impact on depletion expense.

Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned, at which point they would be included in the depletion calculation, or for impairment, for which any write-down would be charged to depletion and depreciation expense.

Full Cost Accounting Ceiling Test

The carrying value of property, plant and equipment is reviewed at least annually for impairment. Impairment occurs when the carrying value of the assets is not recoverable by the future undiscounted cash flows. The cost recovery ceiling test is based on estimates of proved reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment would be charged as additional depletion expense.

Asset Retirement Obligations
The asset retirement obligation is estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonments and reclamations discounted at a credit adjusted risk free rate. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings and for revisions to the estimated future cash flows. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

Income Taxes
The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by ProEx is accumulated and communicated to the Company's Management as appropriate to allow timely decisions regarding required disclosures. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings, that the Company's internal controls over financial reporting are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Company. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's internal controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that these controls will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

CHANGE IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRENOUNCEMENTS

Internal Control Reporting
In March 2006 Canadian Securities Administrators decided to not proceed with proposed multilateral instrument 52-111 Reporting on Internal Control over Financial Reporting and instead proposed to expand multilateral instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. The major changes resulting from this is the CEO and CFO will be required to certify in the annual certificates that they have evaluated the effectiveness of internal controls over financial reporting ("ICOFR") as of the end of the financial year and disclose in the annual MD&A their conclusions about the effectiveness of ICOFR. There will be no requirement to obtain an internal control audit opinion from the issuer's auditors concerning management's assessment of the effectiveness of ICOFR. There is also no requirement to design and evaluate internal controls against a suitable control framework. This proposed amendment is expected to apply for the year ended December 31, 2008. ProEx is continuing with its evaluation of ICOFR to ensure it meets the criteria for the proposed certification for December 31, 2008.

Financial Instruments
The following standards regarding financial instruments are effective for January 1, 2007; 3855 – "Financial Instruments – Recognition and Measurement", 3861 Financial Instruments – Disclosure and Presentation, 1530 – "Comprehensive Income", and 3865 – "Hedges". The standards require all financial instruments other than held-to-maturity investments, loans and receivables, to be included on a company's balance sheet at their fair value. Held-to-maturity investments, loans and receivables would be measured at their amortized cost. The standards create a new statement for comprehensive income that will include changes in the fair value of certain derivative financial instruments. As a result of these new standards, the Company elected not to use hedge accounting beginning January 1, 2007 and marked-to-market its natural gas derivative contracts under its risk management program. The accounting for hedging relationships for prior fiscal years was not retroactively changed, therefore, there was no restatement of the year ended December 31, 2006.

Effective December 31, 2007 ProEx early adopted the disclosures required under section 3862 Financial Instruments – Disclosures which applies to both recognized and unrecognized financial instruments. These disclosures, which include the nature and extent of risks arising from financial instruments, are included in note 9 of the audited financial statements.

Capital Disclosures
Effective December 31, 2007 ProEx early adopted the new recommendations of the CICA for disclosure of the Company's objectives, policies and processes for managing capital (Section 1535) as discussed in note 6 of the audited financial statements.

Convergence with International Reporting Standards
On February 13, 2008, Canada's Accounting Standards Board confirmed January 1, 2011 as the effective date for the convergence of Canadian GAAP to International Financial Reporting Standards. The Canadian Securities Administrators are is the process of examining

changes to securities rules as a result of this initiative. As this change initiative is in its infancy, ProEx has not determined its impact on its financial position or results of operations.

RISK ASSESSMENT

There are a number of risks facing participants in the Canadian oil and gas industry. Some of the risks are common to all businesses while others are specific to the sector. The following reviews the general and specific risks.

Exploration, Development & Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. ProEx's long-term commercial success depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves it may have at any particular time and the production there from will decline over time as such existing reserves are exploited. A future increase in ProEx's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Company will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, ProEx may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by ProEx.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include: delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas release and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Although ProEx maintains liability insurance, when available, in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risk typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into production formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial condition.

Finding Oil and gas exploration requires manpower and capital to generate and test exploration concepts. The eventual testing of a concept will not necessarily result in the discovery of economical reserves. ProEx attempts to minimize finding risk by ensuring that:

- The majority of prospects have multi-zone potential.
- Activity is focused in core regions where expertise and experience is greatest.
- Number of wells drilled is large enough to increase the probability of statistical success rates.
- Working interest are targeted at over 60 percent in new prospects.
- Geophysical techniques are utilized where appropriate.

Investment Risk Profile The Company's investment selection process is based on risk analysis to ensure capital expenditures balance the objectives of immediate cash flow growth (development activity) and future cash flow from the discovery or reserves (exploration). This careful prospect selection process can yield consistent and efficient results. The Company focuses its activity in two core regions, allowing it to leverage off its experience and knowledge in these areas further aiding efficiencies. The Company attempts to maintain a broad range of investment choices to limit the investment risk by continually investing a portion of its annual budget to future years. The Company attempts to use farm-outs to minimize risk on plays it considers higher risk.

Production Beyond exploration risk, there is the potential that the Company's oil and natural gas reserves may not be economically produced at prevailing prices. ProEx minimizes this risk by generating exploration prospects internally, targeting high quality projects and attempting to operate the associated project. Operational control allows the Company to control costs, timing, method and sales of

production. Production risk is also minimized by concentrating exploration efforts in regions where facilities and infrastructure are ProEx owned, or the Company can control the future development of new facilities and infrastructure.

Reserve Estimates Economically recoverable oil and natural gas reserves (including natural gas liquids), estimated by the Company's independent engineering firm, GLJ Petroleum Consultants Ltd., and the future net cash flows there from are based upon a number of variable factors and assumptions, such as commodity prices, projected production from the properties, the assumed effects of regulation by government agencies and future operating costs. All of these estimates may vary from actual results. Estimates of the recoverable oil and natural gas reserves attributable to any particular group of properties, classifications of such reserves based on risk of recovery and estimates of future net revenues expected there from, may vary. The Company's actual production, revenues, taxes, development and operating expenditures with respect to its reserves may vary from such estimates, and such variances could be material.

Competitive Industry Conditions

The western Canadian oil and natural gas industry has become a very competitive industry for oil and gas properties, undeveloped land, drillable prospects and oil and natural gas industry professionals. The Company was initially seeded with a large undeveloped land base that provided a quality inventory of exploration prospects and attempts to mitigate this future risk by developing its own exploration prospects, and through these efforts build a quality inventory of undeveloped lands and drillable prospects that can fuel future growth. The Company has a Technical Services Agreement with Progress that provides the Company with a quality group of industry professionals to enable it to execute its business plan.

Supply of Service and Production Equipment

The supply of service and production equipment at competitive prices is critical to the ability to add reserves at a competitive cost and produce these reserves in an economic and timely fashion. In periods of increased activity these services and supplies can become difficult to obtain. The Company attempts to mitigate this risk by developing strong long term relationships with suppliers and contractors.

Prices, Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by the Company will be affected by numerous factors beyond its control. ProEx's ability to market its natural gas may depend upon our ability to acquire space on pipelines that deliver natural gas to commercial markets. We may also be affected by deliverability uncertainties related to the proximity of our reserves to pipelines and processing facilities, and related to operational problems with such pipelines and facilities as well as extensive government and regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Both oil and natural gas prices are unstable and are subject to fluctuation. Any material decline in prices could result in a reduction of our net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in a reduction in the volumes of our reserves. ProEx might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Company's net production revenue causing a reduction in its oil and gas acquisition development and exploration activities. In addition, bank borrowings available to use are in part determined by our borrowing base, A sustained material decline in prices from historical average prices could reduce our borrowing base, therefore reducing the bank credit available to us which could require that a portion, or all, of our bank debt be repaid.

Demand for crude oil and natural gas produced by the Company exists within Canada and the US, however, crude oil prices are affected by worldwide supply and demand fundamentals while natural gas prices are affected by North American supply and demand fundamentals. Demand for natural gas liquids is dictated predominately by demand for petrochemicals in North American and offshore markets. ProEx mitigates the risks as follows:

- Crude oil production is of a high quality and hence not subject to adverse quality differentials.
- Natural gas is connected to mature pipeline infrastructure that operates with minimal interruptions.
- Exploration efforts target high quality oil and liquids rich natural gas reserves.
- Exploration efforts are concentrated in regions where marketing expertise levels are highest.
- Financial instruments are used, where appropriate, to manage commodity price volatility.

Risk Management

From time to time, ProEx may enter into agreements to receive fixed prices on our oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, we will not benefit from such increases. Similarly, from time to time, ProEx may enter into agreements to fix the exchange rate of Canadian to US dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar;

however, if the Canadian dollar declines in value compared to the United States dollar, we will not benefit from the fluctuating exchange rate.

ProEx has a Risk Management Policy, the objective of which is to ensure cash flow is sufficient to fund the capital program and cover debt payments by reducing the exposure to commodity prices, foreign exchange and interest rate volatility. These objectives may be achieved through the use of financial instruments or through fixed price contracts for the delivery of physical volumes. The program has established targets and guidelines as approved by the Board of Directors from time to time. Effective controls and procedures are in place to ensure that the mandate is followed.

Technology Risks

The Company relies on information technology systems owned and managed by Progress in accordance with the Technical Services Agreement to manage its day to day operations and perform reporting obligations including the preparation of financial statements, reporting to joint partners and various governments in relation to payment of royalties and taxes.

Technical Services Agreement

The Company has a Technical Services Agreement with Progress, whereby Progress provides services required to manage ProEx's activities including management, development, exploitation, operations, administrative marketing activities and information technology systems. The Technical Services Agreement has no set termination date and will continue until terminated by either party with one year prior written notice to the other party or at some other date as may be mutually agreed.

Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. ProEx's operations may require licenses from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at it projects.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". ProEx's exploration and production facilities and other operations and activities emit greenhouse gases which will likely subject ProEx to possible future legislation regulating emissions of greenhouse gases, such as the government of Canada's proposed *Clean Air Act* of 2006 and Alberta's recently enacted *Climate Change and Emissions Management Act.* The direct or indirect costs of these regulations may adversely affect the expected business of the ProEx.

Environmental and Safety Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require ProEx to incur costs to remedy such discharge. Although ProEx believes that it will be in material compliance with current applicable environmental regulations no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect ProEx's financial condition, results of operations or prospects. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Kyoto Protocol or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of ProEx. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict either the nature of those requirements or the impact on ProEx and its operations and financial condition.

There are potential risks to the environment inherent in the business activities of the Company. ProEx has developed and implemented policies and procedures to mitigate environmental, health and safety (EH&S) risks. These policies and procedures include the corporate EH&S policy, emergency response plans, the corporate EH&S Management System, and other policies and procedures. These policies and procedures are designed to protect and maintain the environment, and public and employer safety, with respect to all corporate

operations on behalf of shareholders, employees and the public at large. The Company mitigates environmental and safety risks by maintaining its facilities, complying with all provincial and federal environmental and safety regulations. The Company has estimated future asset retirement obligations of $5.7 million as at December 31, 2007. The Company recognizes period-to-period changes in the liability of the asset retirement obligation resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows.

Financial and Liquidity Risks – Additional Funding Requirements

The funds generated from operations from the Company's reserves may not be sufficient to fund its ongoing activities at all times. From time to time, ProEx may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. ProEx relies on various sources of funding to support its growing capital expenditure program, including:

- Internally generated funds flow from operations provides the minimum level of funding on which the Company's annual capital expenditures program is based.
- Debt may be utilized to expand capital programs when deemed appropriate.
- New equity, if available and on favorable terms, may be utilized to expand exploration programs and fund acquisitions.

Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate operations. If the revenues from the Company's reserves decrease as a result of lower oil and natural gas prices or otherwise, it will effect its ability to expend the necessary capital to replace its reserves or to maintain its production. If funds generated from operations is not sufficient to satisfy capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable. Neither its articles nor by-laws limit the amount of indebtedness that the Company may incur. The level of indebtedness from time to time, could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise. In addition, funds flow from operations is influenced by factors which the Company cannot control, such as commodity prices, the US/Cdn exchange rate, interest rates and changes to existing government regulations and tax policies. Should circumstances affect funds flow from operations in a detrimental way, ProEx would respond by increasing debt to within the Company's self-imposed debt guideline and/or reducing capital expenditures.

Title to Assets

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat our claim which could result in a reduction of the revenue received.

Insurance

The Company's involvement in the exploration for and development of oil and natural gas properties may result in its becoming subject to liability for pollution, blowouts, property damage, personal injury or other hazards. Although prior to drilling ProEx will obtain insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, ProEx may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds generated from operations. The occurrence of a significant event that ProEx is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on our financial position, results of operations or prospects.

Conflicts of Interest

Certain directors are also directors of other oil and gas companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Most notably, all of our officers are also officers of Progress. The potential conflicts of interests between ProEx and Progress are attempted to be mitigated by independent directors of each of the respective entities boards of directors being on committees that oversee the application of the Technical Services Agreement. Conflicts, if any, will be subject to the procedures and remedies of the Alberta Business Corporations Act.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to portions of Canada. The Company is not aware that any claims have been made in respect of its property or assets. However, if a claim arose and was successful this could have an adverse effect on the Company and its operations.

Reliance on Key Personnel

ProEx's success depends in large measure on certain key personnel, including those of Progress. The loss of the services of such key personnel could have a material adverse affect on ProEx. We do not have key person insurance in effect for Management. The contributions of these individuals to ProEx's immediate operations are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of our business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of management.

ADDITIONAL INFORMATION

Additional information relating to the Company, is filed on SEDAR and can be viewed at www.sedar.com. Also information can also be obtained by contacting the Company at ProEx Energy Ltd. 1200, 205 – 5th Avenue S.W., Calgary, Alberta, Canada T2P 2V7 or by e-mail at ir@proexenergy.com. Information is also accessible on the Company's web site at www.proexenergy.com.

ProExEnergy



Financial Statements and Notes

ProEx Energy Ltd.
2007

MANAGEMENTS REPORT

ProEx Energy Ltd.

The management of ProEx Energy Ltd. is responsible for the financial information and operating data presented in this annual report.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise as they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Financial information presented elsewhere in this annual report has been prepared on a basis consistent with that in the financial statements.

ProEx Energy Ltd. has designed and maintains systems of internal accounting and administrative controls. These systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are properly accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors, composed of non-management Directors, meets regularly with management, as well as the external auditors, to discuss auditing (external and joint venture), internal controls, accounting policy and financial reporting matters. The Committee reviews the annual financial statements with both management and the independent auditors and reports its findings to the Board of Directors before such statements are approved by the Board.

The financial statements have been audited by KPMG LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. KPMG LLP has full and free access to the Audit Committee.



David D. Johnson
President & CEO
ProEx Energy Ltd.



Steven A. Allaire
Vice President, Finance & CFO
ProEx Energy Ltd.

Calgary, Canada
February 26, 2008

AUDITORS' REPORT TO THE SHAREHOLDERS

ProEx Energy Ltd.

We have audited the balance sheets of ProEx Energy Ltd., as at December 31, 2007 and 2006 and the statements of earnings, comprehensive income and retained earnings, and cash flows for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years ended December 31, 2007 and 2006 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada

February 26, 2008

BALANCE SHEETS

ProEx Energy Ltd.

As at December 31 ($ thousands)	**2007**	2006
ASSETS		
Current		
Cash and short-term investments	**-**	-
Accounts receivable	**20,091**	22,774
Prepaid expenses and deposits	**3,473**	1,215
	23,564	23,989
Property, plant and equipment (Note 3)	**525,779**	266,318
	549,343	290,307
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**37,669**	26,024
Bank debt (Note 4)	**-**	25,803
	37,669	51,827
Bank debt (Note 4)	**96,881**	-
Asset retirement obligations (Note 5)	**5,691**	1,791
Future income taxes (Note 7)	**19,752**	11,291
	159,993	64,909
SHAREHOLDERS' EQUITY		
Share capital and warrants (Note 6)	**333,861**	192,050
Contributed surplus (Note 6)	**3,522**	1,453
Retained earnings	**51,967**	31,895
	389,350	225,398
Commitments (Note 10)		
	549,343	290,307

See accompanying notes to the financial statements

Approved on behalf of the Board of Directors

Gary E. Perron
Director

David D. Johnson
Director

STATEMENTS OF EARNINGS, COMPREHENSIVE INCOME AND RETAINED EARNINGS

ProEx Energy Ltd.

Year ended December 31 ($ thousands, except per share amounts)	**2007**	2006
REVENUES		
Petroleum and natural gas	**132,160**	84,000
Royalties	**(29,546)**	(23,441)
	102,614	60,559
Realized gain on financial instruments (Note 1, 9)	**7,936**	2,524
Interest	**72**	3
	110,622	63,086
EXPENSES		
Operating	**15,819**	9,172
Transportation	**12,732**	6,950
General and administrative	**2,891**	1,702
Long term incentive compensation (Note 6)	**2,861**	825
Interest and financing	**4,284**	1,307
Depletion, depreciation and accretion	**47,469**	21,543
	86,056	41,499
Net earnings before taxes	**24,566**	21,587
TAXES		
Future income taxes (Note 7)	**4,494**	6,424
NET EARNINGS	**20,072**	15,163
OTHER COMPREHENSIVE INCOME		
Amortization of fair value of financial instruments (Note 1, 9)	**(4,947)**	-
COMPREHENSIVE INCOME	**15,125**	15,163
Retained earnings, beginning of year	**31,895**	16,732
Retained earnings, end of year	**51,967**	31,895
Net earnings per share (Note 6)		
Basic	**$0.42**	$0.43
Diluted	**$0.38**	$0.36

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

ProEx Energy Ltd.

Year ended December 31 ($ thousands)	**2007**	2006
Cash provided by (used in)		
OPERATING		
Net earnings	**20,072**	15,163
Depletion, depreciation and accretion	**47,469**	21,543
Long term incentive compensation (Note 6)	**2,114**	825
Asset retirement expenditures (Note 5)	**(341)**	(424)
Future income taxes	**4,494**	6,424
	73,808	43,531
Change in non-cash working capital (Note 8)	**1,592**	(6,134)
	75,400	37,397
FINANCING		
Increase in bank debt	**71,078**	25,803
Issue of shares and warrants (Note 6)	**152,584**	94,247
Share issue costs (Note 6)	**(6,849)**	(4,180)
Change in non-cash working capital (Note 8)	**(79)**	30
	216,734	115,900
INVESTING		
Asset acquisitions (Note 3)	**(150,731)**	-
Capital expenditures (Note 3)	**(151,959)**	(152,161)
Changes in non-cash working capital (Note 8)	**10,556**	(1,803)
	(292,134)	(153,964)
Decrease in cash and short-term investments	**-**	(667)
Cash and short-term investments, beginning of year	**-**	667
Cash and short-term investments, end of year	**-**	-

See accompanying notes to the financial statements

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Business and Basis of Presentation
ProEx Energy Ltd. ("ProEx" or the "Company") was incorporated on April 8, 2004 and commenced commercial operations on July 2, 2004 under a Plan of Arrangement. Under the Plan of Arrangement various assets of Progress Energy Ltd. ("Progress") were transferred to ProEx.

ProEx is involved in the exploration, development and production of petroleum and natural gas in British Columbia. The financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from those estimates.

Joint Operations
Substantially all of the exploration, development and production activities are conducted jointly with others and accordingly, the Company only reflects its proportionate interest in such activities.

Measurement Uncertainty
The amounts recorded for depletion and depreciation of petroleum and natural gas property, plant and equipment and the provision for asset retirement obligations are based on estimates. The cost recovery ceiling test is based on estimates of proved reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material.

Cash and Short-Term Investments
Cash and short-term investments consist of cash in the bank, less outstanding cheques and short-term deposits with a maturity of less than three months.

Petroleum and Natural Gas Properties
The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, the cost of petroleum and natural gas production equipment and overhead charges related to exploration and development activities.

Petroleum and natural gas assets are evaluated at least annually to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying value of the petroleum and natural gas assets. If the carrying value of the petroleum and natural gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk-free rate.

Proceeds from the disposition of petroleum and natural gas properties are applied against capitalized costs except for dispositions that would change the rate of depletion and depreciation by 20 percent or more, in which case a gain or loss would be recorded.

Depletion and Depreciation
Capitalized costs, together with estimated future capital costs associated with proved reserves, are depleted and depreciated using the unit-of-production method based on estimated proven reserves of petroleum and natural gas on a company interest basis (working interest plus royalty interest) before the deduction of crown and other royalties as determined by independent engineers. For purposes of this calculation, reserves and production are converted to equivalent units of oil based on a relative energy content of six thousand cubic feet of gas to one barrel of oil. Costs of significant unproved properties, net of impairments, are excluded from the depletion and depreciation calculation.

Asset Retirement Obligations

The Company records a liability for the fair value of legal obligations associated with the retirement of long-lived assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset known as the asset retirement cost, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings. Estimates used are evaluated on a periodic basis and any adjustments are applied prospectively. Actual costs incurred upon settlement of the obligations are charged against the liability. No gains or losses on retirement activities were realized due to settlements approximating the estimates.

Financial Instruments

The Company uses derivative financial instruments from time to time to hedge its exposure to commodity price and foreign exchange fluctuations. The Company may enter into crude oil and natural gas swap contracts, options or collars to hedge its exposure to petroleum and natural gas commodity prices and may enter into foreign exchange forward contracts to hedge anticipated U.S. dollar denominated petroleum and natural gas sales. The derivative financial instruments are initiated within the guidelines of the Company's risk management policy and the Company does not enter into derivative financial instruments for trading or speculative purposes.

On January 1, 2007 ProEx adopted the new accounting standards regarding the recognition, measurement, disclosure and presentation of financial instruments. In conjunction with the adoption of these new standards, the Company elected not to use hedge accounting for its natural gas derivative contracts under its risk management program. The fair value of the commodity contracts is recognized at each reporting period with the change in the fair value being classified as an unrealized gain or loss on the statement of earnings. In accordance with the transitional provisions of the standards, the accounting for hedging relationships for prior periods is not retroactively adjusted, therefore, there was no restatement of the prior period. On adoption, the Company recognized a current asset of $7.4 million for the fair value of its natural gas derivative contracts and an increase to accumulated other comprehensive income of $4.9 million, net of tax of $2.5 million. The $4.9 million in accumulated other comprehensive income was amortized through other comprehensive income and unrealized gain or loss on financial instruments on the statement of earnings over the term of the contracts. The commodity contracts expired in 2007 which resulted in the change in the fair value from January 1, 2007 of $7.4 million being offset by the amortization of other comprehensive income. The impact of the change in fair value as at December 31, 2007 is disclosed in note 9. Certain comparative amounts have been reclassified to conform to the presentation adopted in 2007.

For the year ended December 31, 2007 the Company has early adopted the disclosures required under section 3862 Financial Instruments – Disclosures which applies to both recognized and unrecognized financial instruments. These disclosures, which include the nature and extent of risks arising from financial instruments, are included in note 9.

Revenue Recognition

Revenues from the sale of petroleum and natural gas are recorded when title passes to an external party.

Income Taxes

The Company follows the liability method of accounting for income taxes. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The benefit of any uncertain tax benefits, if any, are only recognized if it is probable that they would be realized.

Flow-through shares

The Company issues flow-through shares from time to time to finance a portion of its exploration and development activities. Pursuant to the terms of these issues, the tax benefits associated with the resource expenditures will be renounced to the shareholders in accordance with income tax legislation. To recognize the renunciation of the tax benefits, the future tax liability is increased and share capital is reduced by the estimated amount of the tax benefits renounced to the shareholders at the time the related expenditures are renounced.

Stock Based Compensation

The Company has established a long term incentive compensation plan for directors and officers of ProEx and Progress employees in their capacity as service providers. The Company follows the fair value method for valuing stock option grants and Class B Performance Share issues. Under this method, the compensation cost attributable to stock options granted and Class B Performance Shares issued is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options and conversion of Class B Performance Shares, the consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

The Company has not incorporated an estimated forfeiture rate for stock options, and Class B Performance Shares that will not vest, rather, the Company accounts for actual forfeitures as they occur.

ProEx has participated in a new long term incentive component ("LTI") of Progress' long term incentive plan for non-executive Progress employees in their capacity as service providers. Under the terms of the LTI, Progress employees may be granted LTI awards to be paid in Common Shares of the Company. ProEx agreed to contribute to the LTI to ensure that service providers retain incentives related to the success of ProEx. The LTI awards vest on the second anniversary date of the date of grant. ProEx has agreed to reimburse Progress for this expense and any amount paid is amortized through long term incentive compensation expense over the vesting period. The details of the LTI is described in note 6.

2. RELATIONSHIP WITH PROGRESS ENERGY LTD.

In conjunction with the Plan of Arrangement, ProEx and Progress entered into a Technical Services Agreement which provides for the shared services required to manage ProEx's activities and define the allocation of general and administrative expenses between the entities. Under the Technical Services Agreement, ProEx is charged a technical services fee by Progress, on a cost recovery basis, in respect of management, development, exploitation, operations and marketing activities on the basis of relative production and capital expenditures. For the year ended December 31, 2007, the technical services fee was $6.3 million (2006 - $4.5 million). Under the Technical Services Agreement, Progress markets ProEx's natural gas, crude oil and natural gas liquids under standard industry marketing arrangements on a cost recovery basis. The Technical Services Agreement has no set termination date and will continue until terminated by either party with one year prior written notice to the other party or at some other date as may be mutually agreed. To ensure good governance practices, both ProEx and Progress have each created independent committees of their Board of Directors to monitor compliance with the Technical Services Agreement and the Protocol Arrangement.

As contemplated in the Plan of Arrangement, the Company has issued Class B Performance Shares and stock options to officers and directors of ProEx and employees of Progress in their capacity as service providers to ProEx.

ProEx and Progress have joint interest in certain properties and undeveloped land. These joint interest properties are governed by standard industry agreements and in addition, the companies have entered into a Protocol Arrangement that specifies how each company will govern the management of the joint lands in specifically identified areas of interest. The Protocol Arrangement identifies methods and processes to be followed on both existing and new lands, joint facilities, marketing, seismic and surface rights. Both Progress and ProEx have created independent committees of their board of directors to monitor compliance with the Technical Services Agreement and the Protocol Arrangement.

On April 2, 2007, ProEx acquired certain interests in northeast British Columbia Foothills assets previously acquired by Progress. ProEx's total consideration, including transaction costs of $0.9 million was $136.4 million. When considering the bid process for the Asset Acquisition, each of Progress and ProEx identified assets that they were interested in acquiring and values that they were willing to pay to acquire such assets. Progress made a single bid on behalf of ProEx and Progress and the ultimate purchase price was based on the prices that each of Progress and ProEx were willing to pay for the assets that they had selected to acquire. The resale of assets from Progress to ProEx was based on these allocations. The technical services committee reviewed the details of the transaction prior to the purchase and sale agreement being signed. All lands are managed in accordance with the Protocol Arrangement.

On November 30, 2007, ProEx and Progress jointly acquired certain assets in the Foothills region of British Columbia. The total cost of the acquisition of $17.9 million was split in accordance with working interests currently held in the surrounding area. As a result, ProEx acquired an 80 percent interest ($14.3 million) and Progress acquired a 20 percent interest in the assets ($3.6 million).

As at December 31, 2007, accounts receivable included $0.7 million due from Progress, which includes standard joint venture amounts including revenue. These amounts were received subsequent to the year end.

3. PROPERTY, PLANT AND EQUIPMENT

($ thousands)	**2007**	2006
Petroleum and natural gas properties	**607,392**	300,894
Accumulated depletion, depreciation	**(81,613)**	(34,576)
Property, plant and equipment, net	**525,779**	266,318

As described in note 2, on April 2, 2007, ProEx acquired certain interests in northeast British Columbia Foothills assets previously acquired by Progress. ProEx's total consideration, including transaction costs of $0.9 million was $136.4 million. The full purchase cost of the Asset Acquisition was recorded to property, plant and equipment (including unproved property value of $16.0 million which is excluded from the calculation of depletion and depreciation), in addition, the Company recorded an asset retirement obligation on the acquired assets of $1.9 million. The Asset Acquisition was financed through an equity offering of 8,050,000 Common Shares of the Company at a price of $12.45 per share for aggregate gross proceeds of $100.2 million ($95.6 million net of issue costs). The remainder of the purchase price was financed through bank debt.

On November 30, 2007 ProEx acquired certain assets in the Blair and Cameron areas of the Foothills region for $14.3 million.

During the year ended December 31, 2007, the Company capitalized $1.3 million of general and administrative expenses (2006 - $1.0 million) related to exploration and development activities. The calculation of 2007 depletion and depreciation included an estimated $82.1 million (2006 - $46.5 million) for future development capital associated with proven undeveloped reserves and excluded $78.1 million (2006 – $44.6 million) for the estimated value of unproved properties and $3.5 million (2006 - $1.8 million) for the estimated future net realizable value of production equipment and facilities. Depletion and depreciation expense for the year ended December 31, 2007 was $47.0 million (2006 - $21.5 million).

The Company performed a ceiling test calculation at December 31, 2007 resulting in the undiscounted cash flows from proved reserves and the lower of cost and market of unproved properties exceeding the carrying value of oil and gas assets. The prices used in the ceiling test evaluation of the Company's oil and gas assets is summarized in the following chart:

	Crude Oil		Natural Gas
	West Texas Intermediate (Cdn$/bbl)[1]	Edmonton Par Price (Cdn$/bbl)	AECO Gas Price (Cdn$/mmbtu)
2008	92.00	91.10	6.75
2009	88.00	87.10	7.55
2010	84.00	83.10	7.60
2011	82.00	81.10	7.60
2012	82.00	81.10	7.60
2013-2017[2]	82.34	81.44	7.96
Thereafter[3]	2.0%	2.0%	2.0%

[1] Future prices incorporated a $1.00 US/Cdn exchange rate.
[2] Prices shown are the average over the period.
[3] Percentage change of 2.0% represents the change in future prices each year after 2017 to the end of the reserve life.

4. BANK DEBT

The Company's credit facilities totaling $185 million are with a syndicate of Canadian chartered banks consisting of a $175 million extendible revolving term credit facility and a $10 million working capital facility. At December 31, 2007 the Company had $96.9 million outstanding on its credit facilities (2006 - $25.8 million on a $100 million facility). On June 21, 2007, the Company amended its' existing credit facility agreement with its' lender from a demand revolving operating credit facility to an extendable revolving term credit facility. In accordance with the terms of the new revolving term credit facility, the Company, beginning in the second quarter of 2007, now classifies bank debt as a long term liability on its balance sheet. On August 16, 2007, the Company increased the credit facility borrowing base from $150 million to $185 million. The facilities are available on a revolving basis for a period of at least 364 days until June 21, 2008, and such initial term out date may be extended for further 364 day periods at the request of the Company, subject to approval by the banks. Following the term out date, the facilities will be available on a non-revolving basis for a one year term, at which time the facilities would be due and payable. Various borrowing options are available under the facilities including prime rate based advances and banker's acceptance loans. The credit facilities are secured by a $500 million fixed and floating charge debenture on the assets of the Company. The borrowing base is subject to semi-annual review by the banks.

5. ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligation was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligations is approximately $28.9 million which will be incurred over the next 42 years with the majority of costs incurred between 2008 and 2020. A credit adjusted risk-free rate of eight percent was used to calculate the fair value of the asset retirement obligations.

The following reconciles the Company's asset retirement obligations:

($ thousands)	**2007**	2006
Balance, beginning of year	**1,791**	1,426
Liabilities incurred	**1,819**	606
Liabilities settled	**(341)**	(424)
Liabilities acquired	**1,990**	-
Accretion expense	**432**	183
Balance, end of year	**5,691**	1,791

6. SHARE CAPITAL

Authorized

Unlimited number of voting Common Shares, without nominal or par value

701,300 Class B Performance Shares, without nominal or par value

Issued	**2007**		2006	
($ thousands, except for share and warrant amounts)	Number	Amount	Number	Amount
Common Shares				
Balance, beginning of year	39,690,659	189,820	32,997,815	98,193
Issued for cash	**11,300,000**	**150,357**	6,250,000	93,563
Issued on exercise of Warrants	**1,378,511**	**2,412**	433,776	759
Issued on exercise of Class B Performance shares	**129,746**	**1**	-	-
Issued on exercise of Options	**29,000**	**355**	10,266	96
Forfeited	**-**	**-**	(1,198)	(3)
Flow through share renouncement		**(6,094)**		-
Share issue costs, net of tax $2,127 (2006 - $1,393)		**(4,723)**		(2,788)
Balance, end of year	**52,527,916**	**332,128**	39,690,659	189,820
Warrants				
Balance, beginning of year	6,143,539	2,223	6,584,503	2,381
Exercised	**(1,378,511)**	**(496)**	(433,776)	(156)
Forfeited	**-**	**-**	(7,188)	(2)
Balance, end of year	**4,765,028**	**1,727**	6,143,539	2,223
Class B Performance Shares				
Balance, beginning of year	694,661	7	694,851	7
Exercised	**(143,369)**	**(1)**	-	-
Cancelled	**(95)**	**-**	(190)	-
Balance, end of year	**551,197**	**6**	694,661	7
Total share capital and warrants, end of year		**333,861**		192,050

Issue of Common Shares

On May 17, 2006, ProEx issued 3,000,000 Common Shares at a price of $16.15 per share for aggregate gross proceeds of $48.5 million ($46.3 million net of issue costs).

On November 30, 2006 the Company issued 2,000,000 Common Shares at a price of $12.40 per Common Share and 1,250,000 flow-through Common Shares at a price of $16.25 per flow-through Common Share. The aggregate proceeds, net of share issue costs of $2.0 million ($1.4 million net of tax) were $43.1 million. Pursuant to the flow-through share offering, the Company renounced $20.3 million of qualifying resource expenditures, effective December 31, 2006, and incurred these costs in 2007. The future income tax effect and reduction to share capital was accounted for in 2007, the date that the Company filed the renouncement documents with the tax authorities.

On April 2, 2007, ProEx issued 8,050,000 Common Shares at a price of $12.45 per Common Share for aggregate gross proceeds of $100.2 million ($95.6 million net of issue costs) to finance the Asset Acquisition (refer to note 3).

On September 12, 2007 ProEx issued 1,830,000 Common Shares at a price of $13.70 per Common Share and 1,420,000 flow-through Common Shares at a price of $17.65 per flow-through Common Share. The aggregate proceeds, net of share issue costs of $2.3 million ($1.6 million net of tax) were $47.8 million. Pursuant to the flow-through share offering, ProEx will incur $25.1 million of qualifying

resource expenditures prior to December 31, 2008, to satisfy its flow-through share obligation. ProEx will renounce the qualifying resource expenditures to holders of the flow-through shares effective on or before December 31, 2007. The future income tax effect and reduction to share capital will be accounted for in the first quarter of 2008, the date that the Company files the renouncement documents with the tax authorities.

Warrants
One Common Share may be issued for each Common Share purchase Warrant ("Warrants") at a price of $1.39 per share. All Warrants are exercisable and expire on July 2, 2008.

Class B Performance Shares
Each Class B Performance Share is convertible into a percentage of a Common Share equal to the closing trading price of the Common Shares on the TSX on the trading day prior to such conversion (the "Current Market Price") less $1.39, if positive, divided by the Current Market Price.

Holders of Class B Performance Shares are not entitled to any voting rights or to receive notice of or attend any meetings of the shareholders of the Company, are not entitled to receive any dividends on the performance shares and are not entitled upon any liquidation, dissolution or winding-up of the Company to any return of capital other than the payment of the redemption price for each performance share in preference to the holders of Common Shares. All Class B Performance Shares are exercisable and expire on July 2, 2008.

Management of Capital Structure
Since inception of the Company in July 2004, $576.7 million has been incurred in capital expenditures and acquisitions (net of dispositions of $12.0 million). This has been funded by cash flow from operating activities (before changes in non-cash working capital) of $158.1 million, the issuance of new equity of $317.5 million and increased bank debt and working capital of $101.1 million.

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute on its capital investment program, which includes investing in oil and gas activities which may or may not be successful. Therefore the Company continually strives to balance the proportion of debt and equity in its capital structure to take into account the level of risk being incurred in its capital expenditures.

In the management of capital, the Company includes share capital and total debt (defined as the sum of current assets, current liabilities and bank debt) in the definition of capital.

The key measures that the Company utilizes in evaluating its capital structure are total debt to cash flow from operating activities (before changes in non-cash working capital) and the current credit available from its creditors in relation to the Company's budgeted capital program. Total debt to cash flow from operating activities (before changes in non-cash working capital) is calculated as total debt divided by cash flow from operating activities (before changes in non-cash working capital) and represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if cash flow from operating activities (before changes in non-cash working capital) stayed constant. At December 31, 2007 total debt was $111.0 million and cash flow from operating activities (before changes in non-cash working capital) for the year ended December 31, 2007 was $73.8 million, resulting in a total debt to cash flow from operating activities (before changes in non-cash working capital) ratio of 1.50. Annualized fourth quarter 2007 cash flow from operating activities (before changes in non-cash working capital) was $87.2 million, resulting in a total debt to cash flow from operating activities (before changes in non-cash working capital) ratio of 1.26. Both of these ratios are in an acceptable range for the Company.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions, including; the current economic conditions; the risk characteristics of the underlying assets; the depth of its investment opportunities, forecasted investment levels; the past efficiencies of our investments; the efficiencies of the forecasted investments and the desired pace of investment; current and forecasted total debt levels; current and forecasted natural gas prices and other factors that influence natural gas prices and cash flow from operating activities (before changes in non-cash working capital), such as foreign exchange and basis differential.

In order to maintain or adjust the capital structure, the Company will consider: its forecasted debt to forecasted cash flow from operating activities (before changes in non-cash working capital) ratio while attempting to finance an acceptable investment program including incremental investment and acquisition opportunities; the current level of bank credit available from the bank syndicate; the level of bank credit that may be obtainable from its banking syndicate as a result of natural gas reserve growth; the availability of other sources of debt with different characteristics than the existing bank debt; the sale of assets; limiting the size of the investment program and new common equity if available on favorable terms.

During 2007, the Company's strategy in managing its capital was unchanged.

Earnings per share

Net earnings per Common Share figures have been calculated using the treasury stock method. The following table reconciles the denominators used for the basic and diluted earnings per Common Share calculations.

Weighted Average Common Shares	**2007**	2006
Basic	**47,326,111**	35,335,754
Effect of Warrants	**4,820,057**	5,772,849
Effect of stock options	**-**	22,669
Effect of Class B Performance Shares	**555,858**	617,697
Diluted	**52,702,026**	41,748,969

Long term incentive compensation

Stock options

Under the terms of the stock option plan (the "Plan"), directors and officers of ProEx and Progress employees in their capacity as service providers, may be granted options to purchase Common Shares. The Plan provides for the granting of up to 10 percent of the issued and outstanding Common Shares of the Company. As at December 31, 2007, the Company could grant up to 5,252,792 options. Options granted under the Plan have a term of five years to expiry and vest equally over a three year period starting on the first anniversary date of the grant. The exercise price of each option equals the market price of the Company's Common Shares on the date of grant.

The following table sets forth a reconciliation of the Plan activity through December 31, 2007.

	Number of options	**Weighted average exercise price**
Balance, December 31, 2005	471,600	8.38
Granted	324,000	13.85
Exercised	(10,266)	7.76
Forfeited	(7,000)	14.64
Balance, December 31, 2006	778,334	10.63
Granted	1,207,500	13.87
Exercised	(29,000)	10.72
Forfeited	(23,333)	13.16
Balance, December 31, 2007	1,933,501	12.63

The following table summarizes stock options outstanding and exercisable under the Plan at December 31, 2007.

	Options outstanding			**Options exercisable**	
Range of exercise price	Number outstanding at year end	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at year end	Weighted average exercise price
$5.60 to $7.95	224,000	1.59	5.80	219,333	5.75
$9.08 to $13.40	275,001	2.73	11.27	132,001	10.70
$13.66 to $16.50	1,434,500	4.35	13.96	78,833	14.43
	1,933,501	3.77	12.63	430,167	8.86

The Company accounts for its long term incentive compensation using the fair value method. Under this method, a compensation cost is charged over the vesting period for stock options and Class B Performance Shares granted to officers and directors of ProEx and Progress employees in their capacity as service providers, with a corresponding increase to contributed surplus.

The fair value of the options granted during the year ended December 31, 2007 and December 31, 2006 was estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

Assumptions	**2007**	2006
Risk free interest rate (%)	**4.48**	3.97
Expected life (years)	**3.00**	3.00
Expected volatility (%)	**40.4**	42.5
Weighted average fair value of options granted ($)	**5.88**	5.94

The following table reconciles the Company's contributed surplus:

($ thousands)	**2007**	2006
Balance, beginning of year	**1,453**	637
Stock based compensation expense		
Stock options	**2,090**	748
Class B Performance shares	**24**	77
Redemption of Common Shares and warrants	**(45)**	5
Exercise of Stock Options	**-**	(14)
Balance, end of year	**3,522**	1,453

ProEx has agreed to participate in the long term incentive component ("LTI") of Progress' long term incentive plan for non-executive Progress employees in their capacity as service providers. Under the terms of the LTI, Progress employees may be granted LTI awards to be paid in Common Shares of the Company. ProEx agreed to contribute to the LTI to ensure that service providers retain incentives related to the success of ProEx. Awards granted under the LTI will vest on the second anniversary date of the date of grant. ProEx has agreed to reimburse Progress for this expense, therefore the total compensation expense has been included in prepaid expenses and will be amortized through long term incentive compensation expense over the two year vesting period. On May 3, 2007, ProEx committed to an award of 173,789 Common Shares of ProEx to Progress employees in their capacity as service providers at a total compensation cost of $2.4 million. For the year ended December 31, 2007 $0.7 million was charged to long term compensation expense (2006 – nil) and $0.1 million was capitalized (2006 – nil).

Accumulated Other Comprehensive Income

($ thousands)	**2007**	2006
Balance, beginning of year	-	-
Fair value of financial instruments upon initial adoption of new accounting standard (net of tax of $2.5 million)	**4,947**	-
Fair value applicable to the year, amortized to earnings (net of tax of $2.5 million)	**(4,947)**	-
Balance, end of year	**-**	-

7. FUTURE INCOME TAXES

The provision for future income taxes in the statements of earnings and retained earnings reflect an effective tax rate which differs from the expected statutory tax rate. Differences were accounted for as follows:

($ thousands)	**2007**	2006
Net earnings before taxes	**24,566**	21,587
Statutory income tax rate	**33.12%**	35.31%
Expected income taxes	**8,136**	7,622
Add (deduct):		
Non-deductible crown charges	**-**	2,294
Resource allowance	**-**	(1,943)
Change in provincial/federal tax rates	**(4,178)**	(1,770)
Other	**536**	221
Future income tax expense	**4,494**	6,424

The future income tax liability at December 31, 2007 and December 31, 2006 is comprised of the tax effect of temporary differences as follows:

($ thousands)	**2007**	2006
Property, plant and equipment	**24,245**	13,878
Asset retirement obligations	**(1,479)**	(549)
Loss carry-forward	**(78)**	(90)
Share issue costs	**(2,765)**	(1,731)
Attributed Canadian Royalty Income	**(171)**	(217)
Future income tax liability	**19,752**	11,291

As at December 31, 2007, the Company has federal tax deductions of approximately $441.0 million (2006 - $226.0 million) that is available to shelter future taxable income.

8. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

($ thousands)	**2007**	2006
Accounts receivable	**2,683**	(8,526)
Prepaid expenses and deposits	**(2,259)**	(847)
Accounts payables and accrued liabilities	**11,645**	1,466
Change in non-cash working capital	**12,069**	(7,907)
Relating to:		
Financing activities	**(79)**	30
Investing activities	**10,556**	(1,803)
Operating activities	**1,592**	(6,134)

Interest

($ thousands)	**2007**	2006
Interest paid	**(4,111)**	(1,210)
Interest received	**72**	3

9. FINANCIAL INSTRUMENTS

Fair value of financial assets

The Company's financial instruments recognized in the balance sheet as at December 31, 2007 consist of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities and bank debt. The fair value of these instruments approximate their carrying amounts due to their short terms to maturity or the indexed rate of interest on the bank debt. From time to time ProEx enters into derivative natural gas contracts ("financial instruments"), however there were none outstanding as at December 31, 2007.

Credit risk

Substantially all of the Company's petroleum and natural gas production is marketed under standard industry terms by Progress in accordance with the Technical Services Agreement. ProEx monitors the financial condition of Progress on a quarterly basis in order to mitigate the concentration of credit risk with this counterparty. At December 31, 2007 $0.7 million was owed from Progress and was received subsequent to year end. All other accounts receivable are with customers and joint venture partners in the petroleum and natural gas business under normal industry sale and payment terms and are subject to normal credit risks. The Company routinely assesses the financial strength of its customers.

At December 31, 2007, financial assets on the balance sheet are only comprised of accounts receivable. There were no natural gas derivative contracts outstanding at December 31, 2007. The maximum credit exposure at December 31, 2007 is the carrying amount of accounts receivable of $20.1 million. As is common in the petroleum and natural gas industry in western Canada, receivables relating to the sale of petroleum and natural gas are received on or about the 25th day of the following month. Production is sold to customers with investment grade credit ratings, if available in the area of production, or parental guarantees and letters of credit are sought. Of the $20.1 million accounts receivable outstanding, $13.5 million related to the sale of petroleum and natural gas and was received January 25, 2008. Of the remaining balance, $3.1 million was due from the federal and provincial governments relating to GST refunds and provincial drilling credits and $3.6 million was due from joint venture partners, including Progress mentioned above, relating to the recovery of their interest in operating costs and capital spent. The largest amount owing from one partner was $0.9 million. As the operator of properties, ProEx has the ability to not allocate production to joint venture partners who are in default of amounts owing. At December 31, 2007 there was no allowance for the impairment of accounts receivable.

Currency risk

The Company does not sell or transact in any foreign currency, however, the United States ("U.S.") dollar influences the price of petroleum and natural gas sold in Canada. Price fluctuations, as a result can affect the fair value and future cash flows of derivative natural gas contracts, however, given it is an indirect influence, the impact of changing exchange rates cannot be accurately quantified. There were no derivative natural gas contracts outstanding at December 31, 2007. The Company's other financial assets and liabilities are not affected by a change in currency rates.

Interest rate risk

The Company is exposed to interest rate risk on its outstanding bank debt which has a floating interest rate and would impact the Company's future cash flows. The Company had no interest rate swaps or hedges at December 31, 2007.

Liquidity risk

Liquidity risk relates to the risk the Company will encounter difficulty in meeting obligations associated with financial liabilities. The financial liabilities on its balance sheet consist of accounts payable and bank debt. The credit facilities are available on a revolving basis for a period of at least 364 days until June 21, 2008, and such initial term out date may be extended for further 364 day periods at the request of the Company, subject to approval by the banks. Following the term out date, the facilities will be available on a non-revolving basis for a one year term, at which time the facilities would be due and payable. ProEx anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future cash flows and available credit facility (for further information, refer to "Management of Capital Structure" in note 6). The Company had no defaults or breaches on its bank debt or any of its financial liabilities.

Market risk

Market risk is comprised of currency risk, interest rate risk and other price risks which consist primarily of fluctuations in petroleum and natural gas prices. Currency risk has no impact on the value of the financial assets and liabilities on the balance sheet at December 31, 2007. Changes to the U.S. to Canadian exchange rate, however, could influence future petroleum and natural gas prices which could impact the value of certain derivative contracts, however this indirect influence cannot be accurately quantified. In regards to interest

rate risk, an increase or decrease of one percent to the effective interest rate for the Company would have impacted net earnings by $0.5 million for the year. In regards to commodity prices, a one dollar change in the price per barrel of crude oil would have impacted net earnings by $0.1 million and a $0.25 change to the price per thousand cubic feet of natural gas would have impacted net earnings by $2.9 million.

Financial Derivative Contracts

ProEx enters into derivative natural gas financial instruments for the purpose of protecting its cash flow from operations (before changes in non-cash working capital) from the volatility of natural gas prices. For 2007, the Company's natural gas price risk management program had a net realized gain of $7.9 million (2006 – 2.5 million). As described in note 1, the Company recognizes the fair value of its commodity price contracts on the balance sheet each reporting period with the change in fair value being recognized as an unrealized gain or loss on the statement of earnings. On January 1, 2007 the fair value of the commodity price contracts was an asset of $7.4 million and resulted in an increase to accumulated other comprehensive income and the future income tax liability of $4.9 million and $2.5 million, respectively. The $4.9 million recognized in accumulated other comprehensive income was amortized over the term of the contracts through other comprehensive income with a corresponding unrealized gain on financial instruments on the statements of earnings. As a result, for the year ended December 31, 2007, $4.9 million, net of tax, was charged to other comprehensive income with a corresponding unrealized gain on financial instruments of $7.4 million, and a charge to future income tax expense of $2.5 million. The unrealized gain of $7.4 million was offset by the change in fair value on the natural gas financial instruments from January 1, 2007 of $7.4 million resulting in an unrealized gain of nil for 2007.

Contracts entered into subsequent to December 31, 2007 are as follows:

Natural Gas	Volume	Pricing Point	Strike Price ($gj)	Cost/ Premium	Term
Swap - call spread [1]	10,000 gj/d	AECO	Cdn$7.02– Cdn$8.02	$0.37/gj	Apr 01/08 – Oct 31/08
Swap - call spread [1]	10,000 gj/d	AECO	Cdn$7.12– Cdn$8.12	$0.37/gj	Apr 01/08 – Oct 31/08
Swap - call spread [1]	10,000 gj/d	AECO	Cdn$7.22– Cdn$8.22	$0.37/gj	Apr 01/08 – Oct 31/08
Swap - call spread [1]	10,000 gj/d	AECO	Cdn$7.83– Cdn$8.83	$0.38/gj	Apr 01/08 – Oct 31/08

[1] *Call spread strike prices indicate minimum floor and maximum ceiling*

10. COMMITMENTS

The Company is committed to future minimum payments for natural gas transmission and processing, operating leases on compression equipment, drilling rig contracts, farm-in agreements and future premiums on financial derivative contracts. The Company's extendible term credit facility is available on a revolving basis until June 21, 2008. This initial term out date may be extended for a further 364 day period at the request of the Company, subject to approval by the banks. Following the term out date, the facilities will be available on a non-revolving basis for a one year term. Without assuming the renewal of the credit facilities, payments required under these commitments for each of the next five years are: 2008 - $26.7 million; 2009 - $113.7 million; 2010 - $13.8 million; 2011 - $6.1 million; and 2012 - nil.

ProExEnergy



Selected Quarterly Information 2006 and 2007

ProEx Energy Ltd.
2007

2007 SELECTED QUARTERLY INFORMATION

ProEx Energy Ltd.

FINANCIAL HIGHLIGHTS

($ thousands, except per share amounts)	Three months ended 2007				Annual
	March 31	June 30	Sept. 30	Dec. 31	2007
Income Statement					
Petroleum and natural gas revenues	28,524	37,347	28,231	38,057	132,160
Funds generated from operations	17,907	18,628	15,176	22,098	73,808
Per share – basic	0.45	0.39	0.31	0.42	1.56
Per share – diluted	0.39	0.35	0.28	0.39	1.40
Net earnings	4,066	7,564	716	7,725	20,072
Per share – basic	0.10	0.16	0.01	0.15	0.42
Per share – diluted	0.09	0.14	0.01	0.14	0.38
Balance Sheet					
Capital investment					
Land acquisitions and retention	2,811	290	1,225	1,940	6,266
Geological and geophysical	4,885	1,181	1,424	3,686	11,175
Drilling and completions	34,660	3,387	26,409	45,483	109,939
Equipping and facilities	7,888	1,733	4,934	8,232	22,787
Net property acquisitions (dispositions)	244	137,007	591	14,681	152,523
	50,488	143,598	34,583	74,022	302,690
Total debt					
Bank debt	59,772	95,149	53,777	96,881	96,881
Working capital deficiency (surplus)	10,086	(6,738)	5,575	14,105	14,105
	69,858	88,411	59,352	110,986	110,986
Shareholders' equity	225,865	331,090	380,727	389,350	389,350
Share Information *(thousands, except per share amounts)*					
Shares outstanding at end of period					
Common	39,829	48,548	52,362	52,528	52,528
Weighted average shares outstanding for the period					
Basic	39,768	47,940	49,318	52,121	47,326
Diluted	45,820	53,960	54,575	56,776	52,702
Volume traded	13,855	16,492	12,650	10,157	53,154
Common share price ($)					
High	15.49	16.74	15.25	14.91	16.74
Low	11.83	14.02	12.79	11.10	11.10
Closing	15.15	15.00	14.14	11.83	11.83

2007 SELECTED QUARTERLY INFORMATION

ProEx Energy Ltd.

OPERATIONAL HIGHLIGHTS

	Three months ended 2007				Annual
	March 31	June 30	Sept. 30	Dec. 31	2007
Production					
Natural gas (mcf/d)	36,631	49,530	48,082	52,917	46,838
Crude Oil (bbls/d)	384	414	438	590	457
Natural gas liquids (bbls/d)	246	239	225	270	245
Total production (boe/d)	6,735	8,909	8,677	9,680	8,509
Pricing					
Natural gas ($/mcf)	7.57	7.40	5.36	6.48	6.64
Crude oil ($/bbl)	64.46	68.32	77.64	83.77	74.80
Natural gas liquids ($/bbl)	61.24	66.29	66.98	78.11	68.49
Highlights ($/boe)					
Petroleum and natural gas revenues	47.06	46.07	35.37	42.73	42.55
Realized gain on financial instrument	5.83	0.05	3.89	1.41	2.56
Royalties	(12.47)	(10.62)	(7.95)	(7.89)	(9.51)
Operating expenses	(4.80)	(5.35)	(5.09)	(5.07)	(5.09)
Transportation expenses	(3.68)	(4.48)	(4.07)	(4.06)	(4.10)
Operating netback	31.94	25.67	22.15	27.12	26.43
Interest income	-	0.08	-	0.01	0.02
General and administrative expenses	(1.17)	(0.95)	(1.16)	(0.54)	(0.93)
Long term incentive compensation expense (cash component)	-	(0.23)	(0.32)	(0.34)	(0.24)
Interest and financing expenses	(0.81)	(1.60)	(1.59)	(1.38)	(1.38)
Asset retirement expenditures	(0.42)	0.02	(0.06)	(0.06)	(0.11)
Funds generated from operations	29.54	22.99	19.02	24.81	23.77
Unrealized gain/(loss) on financial instruments	(6.65)	6.43	(0.41)	(0.95)	-
Asset retirement expenditures	0.42	(0.02)	0.06	0.06	0.11
Stock based compensation expense	(0.47)	(0.38)	(0.79)	(1.00)	(0.68)
Depletion, depreciation and accretion expenses	(13.35)	(16.04)	(16.33)	(14.98)	(15.29)
Net earnings before taxes	9.49	12.98	1.55	7.94	7.91
Future income taxes	(2.78)	(3.63)	(0.65)	(0.73)	(1.45)
Net earnings	6.71	9.35	0.90	8.67	6.46
Gross Drilling Results (# of wells)					
Natural gas	19	-	15	30	64
Crude oil	-	-	-	-	-
Dry and abandoned	5	-	-	1	6
	24	-	15	31	70
Net Drilling Results (# of wells)					
Natural gas	12.8	-	10.3	19.2	42.3
Crude oil	-	-	-	-	-
Dry and abandoned	2.4	-	-	0.8	3.2
	15.2	-	10.3	20.0	45.5
Success rate *(%)*	84	-	100	96	93

2006 SELECTED QUARTERLY INFORMATION

ProEx Energy Ltd.

FINANCIAL HIGHLIGHTS

($ thousands, except per share amounts)	Three months ended 2006				Annual
	March 31	June 30	Sept. 30	Dec. 31	2006
Income Statement					
Petroleum and natural gas revenues	20,472	20,723	19,419	23,386	84,000
Funds generated from operations	10,653	10,118	8,766	13,995	43,531
Per share – basic	0.32	0.29	0.24	0.37	1.23
Per share – diluted	0.26	0.25	0.21	0.32	1.04
Net earnings	4,265	3,978	2,627	4,293	15,163
Per share – basic	0.13	0.12	0.07	0.11	0.43
Per share – diluted	0.11	0.10	0.06	0.10	0.36
Balance Sheet					
Capital investment					
Land acquisitions and retention	3,487	5,893	2,604	5,162	17,146
Geological and geophysical	4,172	3,577	1,357	1,147	10,252
Drilling and completions	34,876	12,372	23,087	25,578	95,913
Equipping and facilities	7,960	3,603	5,006	11,597	28,158
Net property acquisitions (dispositions)	44	198	388	53	692
	50,539	25,643	32,442	43,537	152,161
Total debt					
Bank debt	37,003	18,509	34,865	25,803	25,803
Working capital deficiency (surplus)	12,123	(145)	6,634	2,035	2,035
	49,126	18,364	41,499	27,838	27,838
Shareholders' equity	122,422	173,625	176,968	225,397	225,397
Share Information *(thousands, except per share amounts)*					
Shares outstanding at end of period					
– Common	33,003	36,021	36,380	39,688	39,691
Weighted average shares outstanding for the period					
Basic	33,001	34,497	36,255	37,528	35,336
Diluted	40,289	41,151	42,645	43,697	41,749
Volume traded	14,377	7,934	9,894	11,831	44,036
Common share price ($)					
– High	16.98	16.64	15.65	14.46	16.98
– Low	11.70	12.10	12.00	12.00	11.70
– Closing	14.66	13.53	12.81	12.85	12.85

2006 SELECTED QUARTERLY INFORMATION

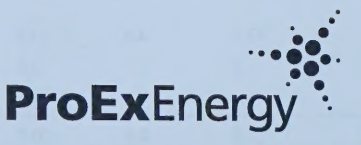
ProEx Energy Ltd.

OPERATIONAL HIGHLIGHTS

($ thousands, except per share amounts)	Three months ended 2006				Annual
	March 31	June 30	Sept. 30	Dec. 31	2006
Production					
Natural gas (mcf/d)	23,454	29,931	28,348	33,505	28,836
Crude Oil (bbls/d)	314	352	331	343	335
Natural gas liquids (bbls/d)	112	163	148	152	144
Total production (boe/d)	4,335	5,503	5,204	6,080	5,285
Pricing					
Natural gas ($/mcf)	8.50	6.34	6.19	6.71	6.84
Crude oil ($/bbl)	65.66	74.72	75.56	60.87	69.26
Natural gas liquids ($/bbl)	68.00	72.41	71.46	56.35	67.03
Highlights					
Petroleum and natural gas revenues	52.47	41.38	40.56	41.81	43.55
Realized gains on financial instruments	-	-	-	4.51	1.30
Royalties	(15.50)	(11.63)	(10.87)	(11.38)	(12.15)
Interest income	0.01	-	-	-	-
Operating expenses	(4.65)	(4.69)	(5.06)	(4.62)	(4.75)
Transportation expenses	(3.70)	(3.52)	(3.56)	(3.64)	(3.60)
Operating netback	28.63	21.54	21.07	26.68	24.35
General and administrative expenses	(0.97)	(1.08)	(0.88)	(0.65)	(0.88)
Interest expenses	(0.23)	(0.21)	(1.24)	(0.93)	(0.68)
Asset retirement expenditures	(0.02)	(0.12)	(0.64)	(0.09)	(0.22)
Capital taxes	(0.10)	0.08	-	-	-
Funds generated from operations	27.31	20.21	18.31	25.01	22.57
Asset retirement expenditures	0.02	0.12	0.64	0.09	0.22
Stock based compensation expense	(0.44)	(0.39)	(0.41)	(0.47)	(0.43)
Depletion, depreciation and accretion expenses	(9.70)	(10.47)	(10.27)	(13.59)	(11.17)
Net earnings before taxes	17.19	9.47	8.27	11.04	11.19
Future income taxes	(6.26)	(1.53)	(2.79)	(3.37)	(3.33)
Net earnings	10.93	7.94	5.48	7.67	7.86
Gross Drilling Results					
Natural gas	16	5	18	18	57
Crude oil	1	-	2	-	3
Dry and abandoned	2	-	1	-	3
	19	5	21	18	63
Net Drilling Results					
Natural gas	12.4	4.4	10.5	13.7	41.0
Crude oil	1.0	-	0.3	-	1.3
Dry and abandoned	1.6	-	0.1	-	1.7
	15.0	4.4	10.9	13.7	44.0
Success rate *(%)*	89	100	98	100	96

ProEx Energy Ltd.

2007 Annual Report



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2007 Performance Highlights

	2007	2006
Reserves – Proved Plus Probable		
- Natural gas (mmcf)	**292,194**	173,737
- Crude oil (mbbls)	**787**	759
- Natural gas liquids (mbbls)	**3,037**	1,798
- Total (mboe)	**52,856**	31,513
Production		
- Natural gas (mcf/d)	**46,838**	28,836
- Crude oil (bbls/d)	**457**	335
- Natural gas liquids (bbls/d)	**245**	144
- Total production (boe/d)	**8,509**	5,285
Pricing		
- Natural gas ($/mcf)	**6.64**	6.84
- Crude oil ($/bbl)	**74.80**	69.26
- Natural gas liquids ($/bbl)	**68.49**	67.03
($ thousands except per share amounts)		
Petroleum and natural gas revenue	**132,160**	84,000
Funds generated from operations	**73,808**	43,531
- Basic per share	**1.56**	1.23
- Diluted per share	**1.40**	1.04
Net earnings	**20,072**	15,163
- Basic per share	**0.42**	0.43
- Diluted per share	**0.38**	0.36
Net property acquisitions	**152,523**	683
Capital expenditures	**150,167**	151,478
Total assets	**549,343**	290,307
Bank debt & working capital deficiency	**110,986**	27,838

Average 2007 production increased 61 percent over average 2006 production levels as a result of successful exploration and development drilling and two strategic acquisitions completed during the year. Funds generated from operations increased 70 percent during 2007 compared to 2006 as a result of higher natural gas production volumes. Average natural gas prices during 2007 were down compared to average 2006 natural gas prices despite a lot of volatility during the year. Exploration capital investment levels were relatively consistent during 2007 compared to 2006. During 2007 the Company invested approximately $152.5 million in two strategic acquisitions. The Company ended 2007 with $111.0 million in total debt compared to $185 million in available credit facility and is well positioned to execute its 2008 investment program.



ProExEnergy

Corporate Information

Directors

John M. Stewart [1][4]
Chairman
ProEx Energy Ltd.
Vice Chairman
ARC Financial Corporation
Scottsdale, Arizona, USA

David D. Johnson
President &
Chief Executive Officer
ProEx Energy Ltd.
Calgary, Alberta

Brian Mclachlan [2][3][4]
President &
Chief Executive Officer
Yoho Resources Inc.
Calgary, Alberta

Gary E. Perron [1][2]
Senior Vice President and
Managing Director
BMO Nesbitt Burns
Calgary, Alberta

Terrance D. Svarich [1][3][4]
President
Devsun Ltd.
Calgary, Alberta

Officers

David D. Johnson
President &
Chief Executive Officer

Steven A. Allaire
Vice President Finance &
Chief Financial Officer &
Corporate Secretary

Trustee & Transfer Agent

Computershare Trust
Company of Canada
Calgary, Alberta

Stock Exchange

The Toronto Stock Exchange
Trading Symbols: PXE

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Bank of Nova Scotia
Corporate Banking
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Consulting Engineer

GLJ Petroleum Consultants
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(1) *Member of Audit Committee*

(2) *Member of Compensation Committee*

(3) *Member of Reserve Committee*

(4) *Member of Technical Services Committee*

Environment, Health and Safety, Corporate Governance and Nomination Matters are addressed by the entire Board of Directors